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OVERSIGHT OF THE VA HOME LOAN GUARANTY PROGRAM

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

APRIL 9 AND 22, 1987

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OVERSIGHT OF THE VA HOME LOAN GUARANTY PROGRAM

THURSDAY, APRIL 9, 1987

House of Representatives,
Subcommittee on Housing and Memorial Affairs,
Committee on Veterans' Affairs,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 340, Cannon House Office Building, Hon. Marcy Kaptur (chairman of the subcommittee) presiding.

Present: Representatives Kaptur, Montgomery (ex officio), Patterson, Burton, and Davis.

Also Present: Representative Ridge.

OPENING STATEMENT OF CHAIRWOMAN MARCY KAPTUR

Ms. **Kaptur**. The subcommittee will be in order.

We will open the hearing this morning, on April 9, 1987, the Subcommittee on Housing and Memorial Affairs, for oversight and legislative hearings on the VA Home Loan Guaranty Program.

In the interest of time, I would like to read an opening statement and then to call the witnesses, starting with the Members of Congress who are present, along with the witnesses that they may wish to introduce. I hope we won't be interrupted by a floor vote here and we will try to proceed as quickly as possible.

This morning marks the beginning of our hearings on the VA Home Loan Guaranty Program. As the new Chair of this subcommittee, I think it is imperative for us to look at the program from different perspectives. It is my hope that, along with other members of the committee, we can focus not only on recent changes which have affected the program, but also on the program's overall strengths and weaknesses and how we might improve it for use by veterans in the future.

I want to know if this program is the best possible housing program for veterans, how can we make it better, who uses the program now, what is the average user's income, in what areas of the country is the program most used, and what are the loan amounts by region.

In addition, I want to know about the operation and management of the program, how consistent is that management with the beneficial intent of the law. The large influx of VA home loan guaranty applications last year, coupled with reduced staffing levels, resulted in a serious deterioration of quality and timeliness in delivery of services to this program.

Foreclosures continue at a high level. Although the VA's experience is comparable to the FHA and conventional lenders, I wish to emphasize that the VA paid 29,438 claims in calendar year 1985, and 34,750 in calendar year 1986, which is an increase of 18.1 percent in just that 1-year period.

It is therefore my intent to look into the possibility that increased servicing on loans could result in fewer foreclosures. I want to look into the VA's current property acquisition procedures and subsequent sales policies; how can these be strengthened.

Proposals last year have affected credit underwriting and we will be studying their impact. VA appraisals were also addressed last year in an effort to ensure that the appraisal system is effective, reliable and trustworthy. The Subcommittee on Commerce, Consumer and Mortgage Affairs, chaired by Congressman Barnard, issued a report last year on the quality of VA appraisals. I commend that gentleman for his comprehensive report and look forward to hearing his remarks later this morning.

I also look forward to hearing testimony from all of our other witnesses on their experiences with the VA Home Loan Guaranty Program, as well as their recommendations for its future, both large and small.

Lastly, I want to address the issue of homeless veterans. Their problems are complex. We will be hearing today from the Honorable Lane Evans, who will be accompanied by Mr. Nathaniel Lowe from the Metropolitan Washington Union of the Homeless, regarding their needs.

I was pleased to note in Monday's Washington Times that for the first time in history the Veterans' Administration is in the process of establishing homeless shelter programs. The VA will be testifying in another hearing before this subcommittee on April 22 outlining their proposed plans. At that time, the subcommittee will go into other pertinent issues affecting the program.

I want to thank everyone who has come here this morning and has an interest in this program. In the interest of time, I would like to call on the Honorable Lane Evans, Congressman from Illinois, along with Mr. Nathaniel Lowe, who is vice president of the Metropolitan Washington Union of the Homeless, in order that we can make best use of the time that is available to us here this morning. Congressman Evans is, of course, the Chair of another very important subcommittee of the Veterans' Affairs Committee and has been holding hearings, among other things, on the needs of women veterans. We are so happy to have you here this morning, Congressman Evans, and thank you for your excellent leadership on so many veterans' issues.

[The prepared statement of Chairwoman Marcy Kaptur appears at p. 105.]

STATEMENTS OF HON. LANE EVANS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS; AND NATHANIEL LOWE, EXECUTIVE VICE PRESIDENT, METROPOLITAN WASHINGTON UNION OF THE HOMELESS

STATEMENT OF HON. LANE EVANS

Mr. EVANS. Thank you, Madam Chairwoman. I appreciate the opportunity to testify today before your subcommittee on the VA Home Loan Guaranty Program and how it relates to homeless veterans.

Last week you were the first witness to testify at the first hearing held by my subcommittee on women veterans. You are a great advocate of all veterans, of all eras, and particularly women veterans. I appreciate the chance to reciprocate and testify before your subcommittee today.

I also want to state for the record that the interest and concerns of our Nation's veterans will be well served by this subcommittee under your leadership and I look forward to continuing to work with you in the future on behalf of all veterans. I sincerely thank you for your testimony and the important contribution which you made last week. Again thank you for addressing an issue of great importance to this Nation's veterans.

There are many issues that will be addressed during today's hearing and future subcommittee sessions, but I will limit my remarks to the subject of homeless veterans. Earlier this year I was pleased to have the opportunity to join with the Union of the Homeless in Washington and in Chicago to visit a number of homeless veterans. The number of homeless veterans that I saw heightened my awareness of the extent of this problem.

We do not know categorically how many homeless veterans there are in America today, but it is estimated that one out of every three homeless individuals in this country is a veteran who has served our country with honor, served with the promise that, in return for the sacrifices they made, there would be services and programs available to them later.

A support system for homeless veterans does exist, but there has been no concerted effort made to bring all these elements together into a partnership for the homeless veterans. The Federal Government has not recognized the homeless veterans as a unique problem of people who often do not have the wherewithal to seek out the help they need.

As a nation, we can't turn our backs on these veterans during their time of need. Perhaps it would be easy for some to close their eyes, their ears and their hearts to the homeless veterans. This Committee on Veterans' Affairs must not. We must take a more aggressive role in finding a solution to this problem.

Many factors contribute to the homeless problem among our veterans. Homeless veterans are victims of unemployment, (with young veterans suffering from unemployment rates from 2 to 8 percent greater than nonveterans of the same age), deinstitutionalization, the housing crunch, drug and alcohol abuse, the same problems of other homeless people. Also, the tragedy of the homeless veteran is compounded by the fact that a significant number of them suffer from post traumatic stress disorder, or PTSD. Unfortunately, homeless veterans receive little, if any, treatment for PTSD.

Food, temporary shelter, clothing, medical care and other essentials must be made available in response to the acute needs of the homeless veterans. But in addition to temporary aid, there must also be long-term assistance to help the homeless veteran secure permanent shelter, gainful employment, needed education and training, and social support services.

A program to assist homeless veterans secure long-term shelter, utilizing properties acquired through foreclosure by the VA and other lenders, should be given our support. I also look forward to the Veterans' Administration's announcement regarding such a program during this month. These properties could be made available on a no-cost or low-cost basis to agencies of local government or private not-for-profit organizations for renovation and rehabilitation. Homeless and unemployed veterans could learn valuable work and work-related skills by being employed in the rehabilitation or renovation of these properties. A similiar program could assist homeless veterans and their dependents rebuild their lives while rebuilding their homes.

A similiar program is now being considered in Philadelphia and would be consistent with the legislation to aid homeless veterans that has been introduced by our colleague and veterans' advocate, Senator Alan Cranston. It should be noted, however, that S. 477, the Homeless Veterans Assistance Act of 1987, won't dramatically eliminate homelessness overnight, nor will all homeless veterans be benefited immediately. But such a program can and will help. It will be a modest starting point for addressing this problem of great concern.

The homeless veteran is still fighting a war, but the battleground has changed. Instead of dodging live ammunition in the jungles of Southeast Asia, or the plains of Europe, the homeless veteran tries to avoid the brutality of our streets. The homeless veteran is not equipped to fight this battle. Society needs to provide that homeless veteran with the reinforcements to win this personal war. In a nation which stresses duty to one's country, it is time that we perform our duty to those veterans who upheld the honor of this country and now need to regain some honor of their own.

Madam Chairman, I know that you have a strong commitment to assisting the homeless veteran. Your continued efforts in conducting hearings on housing issues will bring us closer to the solution of homeless veterans. I again commend you for conducting this hearing today.

For our Nation's homeless veterans, I believe we can do more. I believe we should do more. I believe we must do more. I hope that the members of this subcommittee share these beliefs.

Again, I thank you for holding the hearing and allowing me to testify today.

[The prepared statement of Congressman Evans appears at p. 115.]

Ms. KAPTUR. Thank you very much, Lane, and thank you for your leadership in this area and going around the country and talking with various veterans' organizations and homeless veterans' groups, to try to develop our own understanding of what the best solution might be here and how we might alter some of the VA's programs in order to make this happen more quickly.

Mr. Lowe, we want to welcome you this morning. Thank you so very much for taking the time to come and represent your organization, which I understand is composed of many homeless veterans and other homeless persons throughout the Washington metropolitan area.

Mr. LOWE. Yes, that's right.

Ms. KAPTUR. We are so grateful for your time today.

STATEMENT OF NATHANIEL LOWE

Mr. LOWE. Madam Chairman, I would just like to say thank you very much for inviting the Metropolitan Union of the Homeless here, as well as Congressman Lane Evans.

I am a veteran. I served in the Army from 1969 to 1972. I am also the executive vice president of the Metropolitan Washington Unon of the Homeless.

We do have homeless veterans that are in shelters because, for one reason or another, they either signed their rights away or they were just misplaced. We also have those who have purchased housing from the VA on the veterans loan program and have had foreclosures and they are in shelters.

I just don't want to address only veterans. I want to address the homeless issue at large and what we are trying to do as a part of the Metropolitan Washington Homeless Union. We are trying to get the city government as well as the Federal Government to look at homelessness, period.

Shelters are not the answer. You can be put into a shelter, but they don't provide the necessary needs of an individual for everyday life. Counseling is very poor, the job rate is very poor. Not only that, but some shelters do not have eating facilities whatsoever. The poor conditions of the shelters is that once you go in and get dependent upon the system, which is the shelter system, you become lazy, you see. In some cases, we have had guys go in the shelters, especially one guy that the Veterans' Administration just helped, in order to find out that he had a claim coming. He just went in the shelter and gave up. It was just a place to go. He knew he had a bed and some more. But now he is receiving over $500 a month, but he didn't know he had this coming.

Also, what we have proposed to do, the money that is spent on the shelters should be spent on affordable housing, permanent housing for individuals. We have a proposal before the city as well as the Federal Government to put this program into effect. So far we are still negotiating with this.

The Veterans' Administration has put up some houses at the disposal of the city, and in that process the Metropolitan Washington Union of the Homeless wants to be able to renovate them, renovate them and put them into full use, whereas homeless veterans as well as other homeless families can utilize these houses.

Our program consists of not only housing but job-wise, job training. If we put this program into effect, it will not only create jobs and job training, because we're not saying we just want to go in and renovate a house without any counseling or training.

Not only that, but we need adequate health care. Some of our homeless veterans do not know whether they have any benefits from the VA hospitals. They don't know whether they have any benefits whatsoever. Under our program, we are looking to having job training, jobs, health care, as well as permanent housing.

The Homeless Union was made up on March 29 of last year. One of our main goals—and we also have a constitution—is for permanent housing, jobs and health care. Not only that, but we are an advocacy group. Like I say, we want to be able to get the Federal Government as well as the city to work together.

We are opposed to shelters, period. I was in a shelter. In fact, as some of you might know, I was a part of the CCNV shelter with Mitch Snyder, and I was on a 22-day hunger strike, a 22-day fast, at the same time he was. But shelters is just not the answer. We need permanent housing.

We have buildings that are sitting around in the city, right today, that are boarded up, that have not been used since the riots. In fact, there is one building at University Place that belongs under the Frank Smith Homestead Act. It was one of the buildings that we went into.

Not only that, but on Martin Luther King's birthday we went into a VA-repossessed house. At that time the Veterans' Administration didn't do anything. We weren't locked up or anything like that. But the point was, we brought them together to see our needs as homeless veterans, as well as homeless people, period. Like I said, at that time we were able to sit down and able to come up with an ultimate plan. Then they involved the city. Like I said, that is still in effect now.

So I am hoping that this committee today can take a good look at the homeless issue, as well as put something together, to come up with ways that can help not only homeless veterans but homeless people, period.

I thank you.

[The prepared statement of Nathaniel Lowe appears at p. 119.]

Ms. KAPTUR. Thank you very much, Mr. Lowe. We appreciate your consideration of our time constraints here this morning.

I wanted to welcome the other members of the subcommittee that have joined us this morning. We are going to open this panel for questions now. I would just ask you to please stay within the 5-minute rule—or maybe the 1-minute rule—so we can move along quickly. We have other Members of Congress who have come in to testify as well.

Prior to calling on Mr. Burton, I just wanted to ask Mr. Evans a question. You indicated it would be a good idea to hire unemployed and homeless veterans to renovate some of the VA's foreclosed properties. One of our witnesses this morning is going to outline how he currently trains veterans under the Veterans Job Training Act to renovate properties, and he is looking into the possibility of renovating some of the VA's foreclosed properties.

Since the VA testified in favor of the provision contained in S. 477 with regard to utilizing hard-to-sell properties for homeless veterans by making them available on a low-cost basis to agencies of local governments or other local entities working with the homeless, don't you think we should ask them why they aren't doing this administratively?

Secondly, if you could change anything in the VA Home Loan Guaranty Program, do you have any suggestions to the subcommittee on what that might be?

Mr. **Evans**. I guess you're asking me why the VA itself hasn't gone into renovating these homes?

Ms. **Kaptur**. Right.

Mr. **Evans**. I think it's a matter of maybe not having the resources to administer the program. What I guess is being negotiated in Philadelphia would be a turning over of those VA properties to the city of Philadelphia and they, in turn, would then contract with groups like the Homeless Union to renovate those facilities, using members perhaps of the Homeless Union or people that they would employ.

I wouldn't be necessarily opposed to the VA administering the program. But they are a large agency and they have many other concerns. They have a large inventory of property right now that is basically sitting vacant, as Mr. Lowe indicated. I'm not sure that they're the best agency, and I'm not sure the cities' housing agencies are the best, either. I think this perhaps should be farmed out to nonprofit organizations, such as this organization or others.

As far as the veterans' job training program, we've had problems with that program and you have to be fairly well situated to know the bureaucracy of how that program works. I think it might be a possibility where nonprofit organizations might be able to use that program. But we have had problems, I think, as you know, in serving on the Subcommittee on Education and Training, with the implementation of that program.

The number one change I would say, if we're going to utilize that program, would be to make that a less bureaucratic, more flexibile and more creative kind of program.

Ms. **Kaptur**. I wanted to ask one further question.

Mr. Lowe, you talked about the necessity of home ownership and preferences against putting people in shelters. Have you given much thought, or are you aware of any system that's been set up in any community around the country, wherein some homeless veterans who aren't ready to care for a property immediately, have been placed in transitional housing that's been made available, and then have moved from that into permanently financed homes under the VA home loan program? Are you aware of any program anywhere in the country that's been successful in doing that?

Mr. **Lowe**. No, I am not.

Ms. **Kaptur**. Do you feel that there is a difference in various veterans and their ability to own a home and to keep up the payments and so forth?

Mr. **Lowe**. Within the city, we know there is a program which is screening and training as to how to care for properties, to be sure they are able to pay the rent, the mortgage, or whatever it is. There is an ongoing program now, which is Project Hope. They have a program like that. They also are placing people, homeless families, into housing in ways that they can maintain that house.

Ms. **Kaptur**. I believe someone is going to testify regarding that organization a little bit later this morning.

I wanted to call on our ranking minority member here, Mr. Dan Burton, for a statement or any questions.

Mr. **Burton**. Thank you, Madam Chairman. I apologize for my tardiness. This has been a busy day for everybody, with a lot of markups and other things, so I extend my apologies to the committee and the Members who are here.

Mr. Lowe and Congressman Evans, has the VA been cooperative in trying to help the plight of the homeless veterans, or have there been problems with the VA in trying to get them to help you out?

Mr. **Lowe**. No, the VA has been very cooperative with the Metropolitan Homeless Union. Like I say, we had one gentleman that didn't know he had any benefits coming. He signed up and now is receiving his benefits. So they have been very good and have been very helpful to us.

Mr. **Evans**. I might add that I was accompanied on the Washington trip by a VA official. I don't think they were quite aware of all the problems. I think the Union has worked with them to make them more aware of the overall problems that veterans are facing. I think they have worked to rectify problems of veterans who are without an address in receiving disability checks and things of that nature. They have made some great strides.

Not knowing really what all they are proposing with the properties that they want to turn over, at least they are making some efforts at this point to consider that. I think they are moving ahead in a good kind of basis, in a kind of deliberate basis, to do something about this. I think they are starting to realize that it's just not a matter of giving people temporary shelter, that it's a whole array of problems that our veterans are facing, not just related to housing issues. There is PTSD, the joblessness, particularly among urban veterans and so forth. So I have been pleased. I think they, along with the rest of society, are becoming more and more aware of the plight of the homeless and all the associated problems.

Mr. **Burton**. Thank you.

I have a brief statement that I would like to read into the record, Madam Chairman.

I would like to commend the chairwoman for addressing these important issues before this subcommittee. It is imperative that we continue to support the highly successful VA Home Loan Guaranty Program while looking at options to improve it. The success of the Home Loan Guaranty Program can be seen in the numbers. The VA has just guaranteed its 12 millonth home loan, and the program was used by 14.5 percent of new, single-family home buyers in 1986. It is imperative that this success not overshadow attempts to improve the program. Additionally, we must address the current problems being faced by the homeless veterans.

I would like to thank the Honorable Doug Barnard, Fofo Sunia, and Lane Evans, in addition to everyone else here today, for striving to improve the quality of service being provided to our veterans. Although this does not impact upon the VA Home Loan Guaranty Program, I would like to commend the VA for establishing, for the first time, shelter programs for the chronically mentally ill veterans. Surveys in some cities claim as many as 60 percent of the homeless veterans are mentally ill. This is not a problem we can avoid. If this pilot program is located here in Washington, I hope it will lead the rest of the Nation to correct the problem of the homeless veterans.

Thank you, Madam Chairman.

Ms. **Kaptur**. Thank you very much, Mr. Burton.

Mrs. Patterson?

Mrs. **Patterson**. Thank you, Madam Chairman. I hope you all can hear me through my cold. I would just like to ask one brief question.

I hear that the Veterans' Administration here in Washington has been cooperative, but I see this as a plight where many agencies should cooperate. Do you see cooperation from other agencies, other organizations?

Mr. **Lowe**. So far, like I say, we are in negotiations now with the city as to what they're going to do about the situation. Like I say, the Veterans' Administration has been very cooperative. We have been working together on this issue.

Other organizations are coming around, but they're not coming around fast enough.

Mr. **Evans**. I think there has been some problems with certain agencies, and it really wouldn't be helpful to pinpoint particular ones at this point. But I also think there was a problem of not being aware of the total situation that homeless veterans or other homeless people face.

What I found, just kind of briefly, in going out and seeing what daily life was like, was that with the reliance on the shelters, some shelters only allow you to stay in that shelter for three times a week. You have to leave the shelter very early in the morning—I think 6:30 or 7:00 at the latest. You may have warm-up centers throughout, let's say, Chicago, where you can get some coffee and maybe a piece of bread with peanut butter on it. They have to go to a meal site for both breakfast and lunch in a different location than the actual shelter. You have to take everything you own with you when you leave that shelter in the morning.

So there are plenty of problems, particularly in the winter months, when people have to wait 45 minutes to an hour just to check into the shelter. If you have even kind of a part-time job, trying to earn money to get out of this cycle, if you miss the period of check-in you can't get in that night. So there is an overall problem, I think, with agencies understanding the scope and the nature of the problem of these homeless people.

Mrs. **Patterson**. In the essence of time, I will reserve any other questions. Thank you, Madam Chairman.

Ms. **Kaptur**. Thank you very much, Mrs. Patterson.

Before I call on Mr. Davis, I just wanted to thank the chairman of the full committee, the Honorable Sonny Montgomery, for joining us and whatever time he can give. Thank you for your support of this subcommittee's work and your support of everything concerning veterans for so very many years. We're glad to have you, Mr. Chairman.

Mr. **Montgomery**. Thank you, Madam Chairman.

Ms. **Kaptur**. Mr. Davis.

Mr. **Davis**. I certainly would echo that, Madam Chairman. Thank you.

Just one question, Lane. In the turnover of foreclosed properties to not-for-profit organizations for renovation, rehabilitation and then resale or refinancing to homeless veterans, is it contemplated that the VA will do that at market value, or what they're currently appraised at, whatever condition they are in? Or will they be giving them to those organizations, and would they, indeed, have a reduced price?

Mr. EVANS. I'm not sure. We're waiting to hear from the VA as to what they are actually proposing. It would be on a lower or no-cost basis to the cities, essentially because many of these properties are in bad condition and—

Mr. DAVIS. You got it.

Mr. EVANS [Continuing]. And need to be renovated in a very tough to sell and open free market. So the decline in the values would probably be hard to establish. I think we have to look at the cost perhaps to the VA of just maintaining these homes, as well as the overall cost to the Federal Government. You know, if we pass some homeless legislation, we will probably be considering other legislation and looking at that. We ought to look at the costs of turning over some of these properties that are of little or no value.

Mr. DAVIS. Could you speak to the VA's policies regarding things that you just mentioned, where a house may be worth, let's say, in fair condition or top condition, $50,000, and it's been foreclosed and now it has deteriorated to the point where it is a $25,000 property, if somebody wanted it, but they're still carrying it at $50,000 and they'll never sell it?

Mr. EVANS. That is a problem, I understand, that our chairwoman or our committee will be holding hearings on all of these matters.

Mr. DAVIS. Yes. Because that would seem to be the impetus for turning it over at some lower figure at that point on a reappraisal of those kinds of properties. I just wondered if you had discussed the mechanism?

Mr. EVANS. No, I haven't really gotten into all the mechanisms. Basically, I have just been able to explore the problems from the homeless person's point of view, and now we are looking at various solutions. So I really haven't had a chance to explore or find out from the VA what they are proposing. The example you've given probably isn't even true for some of these homes, particularly in the harder hit neighborhoods.

Mr. DAVIS. I understand. Thank you.

Mr. BURTON. Would the gentleman yield, briefly?

Mr. DAVIS. Yes, indeed.

Mr. BURTON. We had a problem that's related to this in Indianapolis, where we had numerous homes which they had foreclosed on. They were sitting idle. They found that a lot of these homes would be vandalized and burned to the ground; kids or vandals would get in there, or people who were arsonists, and just destroy them. It was a real waste of taxpayers' dollars to have all this occur.

So what they did was to come up with a program, a kind of cooperative program, between the city and Federal Government, for low-income people. I presume those who could qualify would come in and bid on these for a dollar or five dollars. It was a dollar to get the house, just to have it occupied. The people had a required period of time within which to bring the house up to code and make it livable. So for a dollar people could get in these homes. They put them out for bid and numerous people bid on them and they drew them out in a lottery type fashion. We were able to get a lot of houses occupied and made into livable units, instead of letting them become a blight on the landscape. It helped both the underprivileged and the people in the lower income groups, as well as getting those houses into livable condition.

Otherwise, you have a lot of these low value homes turning into a real blight, and you end up starting a slum.

Mr. EVANS. I think that is the same problem that I and my colleague from Illinois have had in our State. We had the same situation, not only with VA properties but other properties.

Mr. BURTON. Have they tried that bid-type of process.

Mr. EVANS. I don't know—

Mr. DAVIS. There has been some experimenting—if I may reclaim my time, Mr. Burton—some experimenting with urban homesteading, as it's called in Chicago. It has worked dramatically well, normally with the FHA. The VA hasn't participated in it. But you're right, it works.

Mr. EVANS. I think we will have an opportunity to ask the VA at some later hearings and I hope this is something they are considering. Really, I have not been that directly involved in finding out what the VA is proposing as of yet. I have just been dealing with them in terms of the immediate situation and what they're providing to the veterans.

Ms. KAPTUR. Thank you.

I wanted to ask the chairman of the full committee if he wanted to make any comments this morning.

Mr. MONTGOMERY. I have no comments. I appreciate the Members of Congress being here to testify today, Madam Chairman. Thank you for having me.

Ms. KAPTUR. Thank you, Mr. Chairman. I want to thank the witnesses very much.

Mr. Lowe, I just had one final question of you. You mentioned you had spent some time in a shelter here in Washington?

Mr. LOWE. Yes, I have.

Ms. KAPTUR. How many of the people who were using that shelter were veterans, to your knowledge? Were there a lot, in your judgment?

Mr. LOWE. There are a lot in CCNV. I couldn't give you a figure. This shelter that CCNV handed over, they had men, women and kids there, too. But there was over 2,000 men and women that were there at that shelter.

Ms. KAPTUR. I appreciate your comments about distinguishing between people's need for permanent housing and their need for temporary shelter or emergency shelter. I think that distinction is a very important one for this committee to be aware of. So we thank you very much for being here.

Congressman Evans, we thank you for your leadership on this issue. I thank the panel very much.

Mr. LOWE. Thank you.

Ms. KAPTUR. I would like to call the two Members of Congress, Congressman Douglas Barnard from the State of Georgia, and Congressman Fofo I.F. Sunia from American Samoa. If you would like to come up to the table, we are so happy to have you this morning. Many glowing things were said about you prior to your arrival, so we'll make sure to get you a copy of the hearing record.

I know that Congressman Barnard's subcommittee has held extensive hearings in the whole area of appraisals, and we would like to start with you. We really appreciate you taking time out of your busy schedule to be here with us this morning.

STATEMENTS OF HON. DOUG BARNARD, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA; AND HON. FOFO I.F. SUNIA, A DELEGATE IN CONGRESS FROM THE TERRITORY OF AMERICAN SAMOA

STATEMENT OF HON. DOUG BARNARD

Mr. BARNARD. Thank you, Madam Chairman, and distinguished members of this subcommittee of Veterans' Affairs.

I want to quickly apoloize for my tardiness this morning, but it seems like the cherry blossoms have been a magnet for tourists, and it seems like that most of them are coming from Augusta, GA where they have leased their houses for people going to the Masters Tournament. So I am finding, per capita, more constituents here today than I have seen in many, many years.

Madam Chairman, I would say at the outset that I am especially pleased to be able to come and appear before this subcommittee. At one time during my career in the Congress I was on this subcommittee and I enjoyed it very much. I found it was not only worthwhile but was encouraging—

Ms. KAPTUR. Have we run into these problems because you're no longer serving on this subcommittee?

Mr. BARNARD. Oh, no. I think it's been going so well since I left, you know.

[Laughter.]

I guess I would also say, since the distinguished chairman of the full committee is here, that my home town was the beneficiary of a brand new VA hospital last year. We do appreciate the consideration of this committee in authorizing that new VA hospital. It has now been fully funded and I'm delighted to say that I will be breaking ground in about 2 weeks there. So we are making good progress, Mr. Chairman.

Madam Chairman, my testimony today addresses a very narrow but what I believe is an important aspect of the VA loan program—that is, the role of appraisers in safeguarding VA's extensive loan guaranty commitments.

Late last year, the Commerce, Consumer, and Monetary Affairs Subcommittee of Government Operations, which I chair, completed a year-long investigation and issued a report on abusive appraisal practices and their impact on Federal programs.

The report concluded—and I quote— "that faulty and fradulent real estate appraisals have become an increasingly serious national problem; that their harmful effects are widespread, pervasive, and costly; that they have contributed directly to the insolvency and problem status of hundreds of the Nation's financial institutions, and have helped cause billions of dollars in losses to lenders, private mortgage insurers, investors, and Federal insurance and guarantee funds."

The VA's loan guaranty program was part of the wreckage described in our report. The subcommittee estimated that from 10 percent to as much as 40 percent of VA's $420 million loan guaranty loss in 1985 was caused by faulty or fraudulent apraisals.

Before I detail the subcommittee's specific findings with respect to the VA, I would like to take a moment to describe why appraisals play so important a role in the financing of real estate transctions, and why so many Federal agencies have a vital stake in the integrity of the appraisal process. Each year, millions of real estate transctions, both residential and commercial, are financed by loans or investments that are federally insured, federally guaranteed, or that receive some other Federal benefit:

The Federal Deposit Insurance Funds stand behind the millions of real estate loans made each year by our Nation's banks and thrifts; VA and FHA either make mortgage loans or guarantee repayment of such loans when made by commercial lenders to qualified borrowers; Fannie Mae and Freddie Mac, which are federally chartered entities, purchase billions of dollars in mortgages and provide huge amounts of liquidity to primary and secondary mortgage money markets; and the SEC supervises the sale of billions of dollars of mortgage-backed securities to public investors annually.

To an overwhelming extent, none of these activities could take place without collateral and without a determination that, in the event of a default, the market value of the collateral is adequate to repay the lender, insurer, guarantor or investor. It is the appraiser who makes that determination and provides that assurance.

If a default takes place and the property collateralizing the real estate transaction has been overvalued by the appraiser, either through incompetency or dishonesty, foreclosure and sale of that property will often be insufficent to cover the outstanding indebtedness. It is sad to say, but this is an incredibly common occurrence that is most often caused by lender and borrower pressure on the appraiser to produce a valuation high enough to "make the deal". In fact, so many deals of this kind have been made in recent years that hundreds of thrift institutions have been made insolvent because of them.

Let me turn now to the question of how VA's loan guaranty program has been specifically impacted by faulty or fraudulent appraisals.

The VA operates under a statutory requirement that a loan guaranty cannot exceed the reasonable value of the property on which the guaranty is issued. In order to establish reasonable market value, VA maintains a roster of 6,000 fee appraisers. Now, that figure is important because of another statistic that I'm going to quote. There are 6,000 fee appraisers who, in 1985, performed 613,000 appraisals. The central purpose of this statute and this system is to protect the American taxpayer who stands behind each and every VA guaranteed mortgage loan.

Now, although the VA has never regarded appraisal abuses as being an overwhelming problem, it has acknowledged their seriousness and has vowed to deal with them effectively. An indication of the extent of the problem is illustrated by the following:

In 1985, from 10 percent to as much as 40 percent of the VA's $420 million loan guarantee loss was caused by inaccurate or dishonest appraisals.

The number of VA-approved fee appraisers who have been suspended or disciplined for incompetency or unethical behavior has been increasing dramatically. In fiscal year 1983, it was 348; in fiscal year 1984, it was 505; in fiscal year 1985 it was 631; and, alas, in 1986, it grew to over 1,200. Now, I say 1,200, when we go back and talk about the fact that there are only 6,000 fee appraisers in the whole country.

The VA's Inspector General found that between 1981 and 1984 home loan guaranty appraisers frequently overvalued properties, resulting in higher claim losses and increased veteran indebtedness.

Finally, a nationwide series of major frauds perpetrated against the Federal Housing Administration involved VA appraisers and appraisal documentation.

The subcommittee found that many of VA's appraisal problems resulted from weaknesses in its appraisal-related policies and procedures, especially the failure of responsible officials to effectively monitor and supervise appraiser performance. We discovered that in many cases where field reviews or other sources disclosed unsatisfactory appraiser performance, the VA disciplined the implicated appraiser either insufficiently or not at all. Moreover, VA field reviews were not performed as frequently or as thoroughly as required. For example, the VA review process had missed all of the 500 appraisals tied to the fraudulent schemes perpetrated against the FHA in Camden, NJ in the 1980's.

The subcommittee's September, 1987 report recommended a number of solutions to the appraisal-related deficiencies in the VA program. We recommended, for example, a tightening of VA's appraisal review and monitoring procedures; that VA join a Federal interagency task force on the subject of appraisal abuses; and that VA should develop procedures for sharing information on its own appraisal problems with other Federal agencies.

In its December, 1986 response to the subcommittee report, the VA wrote that it had "taken important actions and implemented procedural steps to improve its appraisal system. We do not underestimate the importance of this complex issue and are committed to continued efforts to ensure that the VA has an effective and viable appraisal system adequately protected from poor quality or inappropriate appraisals and those appraisers who perform them."

Madam Chairman and members of the subcommittee, I am pleased to tell you that the subcommittee's recommendations have been largely implemented by VA. For example, the Veterans' Administration, FHA, Fannie Mae and Freddie Mac have developed a common appraisal form which is now in use. VA also tightened its appraisal-related underwriting procedures and monitoring requirements.

The VA has become an active participant in a new Federal interagency task force that is attempting to fashion common Federal solutions to appraisal abuses. The VA has emphasized to its field stations that VA appraisals intended for HUD and FHA insuring purposes should be subject to the same quality controls as those intended for VA financing.

Appraiser-proposed increases in market value on VA-guaranteed properties must be accompanied by adequate documentation, including supervisory concurrence when the increase is 5 percent above the original market value.

Also, field station guidelines concerning review of apraisal reports were expanded in March of 1986. Field stations are now required to submit to VA's Washington office a year-end written report which will allow headquarters to monitor field station supervision of fee appraisers. The report includes negative work quality findings noted during field station staff reviews and disciplinary actions; that is, written admonishments, temorary suspensions, and removals taken against fee appraisers.

On Janury 8 of this year, VA amended its Privacy Act regulations so that it could share with FHA, Freddie Mac, lenders and others, information on removal actions concerning fee appraisers identified with incompetence, malfeasance, or practices detrimental to the interest of the Government, purchaser or lender. In addition, VA now notifies State licensing agencies, if appropriate, and the professional appraisal organizations with which the fee appraiser is identified.

In short, Madam Chairman and members of the committee, abusive appraisal practices have had, and in many instances continue to have, a severely detrimental impact on many Federal programs. However, the reforms accomplished by the Veterans' Administration provide reason to be optimistic, that in the future these problems may be ameliorated insofar as the VA loan guaranty program is concerned.

I hope that my testimony has been of some benefit to you this morning and for the record, and I hope that when you have the VA before you you will urge them to continue to be diligent in dealing with appraisal abuses.

Thank you very much.

[The prepared statement of Hon. Doug Barnard, Jr. appears at p. 122.]

Ms. KAPTUR. Thank you very much, Mr. Barnard.

I wanted to ask you, if I might, do you have any sense for this year, as to the number of fee appraisers who have been suspended or disciplined? You mentioned it was 1,200 out of 6,000 in 1986. Do you have any sense, based on these changes, of what it might be this year?

Mr. BARNARD. No, I don't have any record, other than what our previous study has indicated.

Ms. KAPTUR. From your own thorough knowledge of this area, do you believe we could get better results with the current fee-basis system, or should the VA hire, supervise and control all of its own appraisers?

Mr. BARNARD. I would think that that issue needs to be studied, Madam Chairman, for this reason. Because of our study, there is a task force that has been organized, and where most of the major appraisal associations are participating. What they are trying to do is reach a consensus among all of these qualified or reputable associations, to work out some procedure for licensing appraisers.

You see, we have no licensing of appraisers at all, in any State in the Union—that is, to any degree. We license real estate agents, we license insurance agents, we license CPAs, but we don't license appraisers. And yet appraisers provide one of the most important documents in any financing transaction. We all know that.

This task force is in being right now to come up with some type of procedure, very much like the CPA procedure—not exactly like that, but in that vernacular—so that we can get licensing of appraisers from State to State to State. If we can get that in being, I think it would be important, that the fee appraisers the VA uses would have to be licensed. So I think it's not something we can say that the VA can do today, but I think it is something we can move to in the future. And I think it will be very cost beneficial because we will lose less money in foreclosures when we get more accurate appraisals.

Ms. **Kaptur**. Who is the lead agency in that interagency effort?

Mr. **Barnard**. In the task force? Well, of course, there is the American Society of Real Estate Appraisers, then—

Ms. **Kaptur**. Oh, they're nongovernmental entities?

Mr. **Barnard**. Yes. These are the professionals. They want to clean up this "mess" as much as anybody, because it is a reflection upon the credible appraisal institutons that we are having so many faulty appraisers.

Of course, you may ask why we have so many faulty appraisals. They serve the purposes of sometimes the lender, sometimes the borrower, and sometimes the developer. With the strength of the secondary mortgage market today, you see, that when a loan is made and sold on the secondary market, there are many people who are vulnerable, especially the savings and loans. Consequently, this is why we initiated this, to me, important study, and why the VA was included, because it is a loan guaranty program.

Ms. **Kaptur**. Tell me this. Is there a similar interagency group inside the Government that is trying to monitor the progress of the outside group, or do you see the necessity for that?

Mr. **Barnard**. Well, first of all, we now find that the VA, the FHA and Fannie Mae, they are all now working together in this appraisal process. They are sharing information, which is something they have not done before. This shows a tendency within governmental activities. Maybe it's not organized on a formal basis, but there is the swapping of information today which was not available at one time.

Ms. **Kaptur**. Thank you very much.

Mrs. Patterson.

Mrs. **Patterson**. I will reserve my questions at this time, Madam Chairman.

Ms. **Kaptur**. Mr. Davis.

Mr. **Davis**. I have no questions at the moment, Madam Chairman, thank you. It was a very excellent statement.

Mr. **Barnard**. Thank you, Jack. It's good to be with you.

Ms. **Kaptur**. Thank you very much. I hope we can continue to rely on your subcommittee for any updates or information.

Do you expect them to continue to report back to you?

Mr. **Barnard**. Madam Chairman, we are working on the legislation that would put this process in being. Hopefully, it will be assigned to the Government Operations Committee and the subcommittee which I chair. So we are pursuing this issue very vigilantly because we think it's important, especially from the standpont of how much losses we are realizing in the guaranty program and the failure of so many thrifts.

Ms. **Kaptur**. Absolutely. We thank you for your leadership. I know, from serving with you on the Banking Committee, what an excellent leader you are in the financing of housing and the solvency of our thrifts and commercial banks, so we really appreciate your appearing before this subcommittee.

I think the chairman of the full committee wanted to make a statement.

Mr. **Montgomery**. Thank you, Madam Chairman.

I also would like to follow up on your comments, that Doug Barnard is a leader in the banking field and he has certainly been much help to all of us in the Congress. I want to thank you for this excellent testimony. Your subcommittee report has pointed out some of the weaknesses in the appraisal field of the Veterans' Administration.

Madam Chairman, when the interest rates were coming down, one of the biggest problems that the veterans were telling us about in obtaining loans was a timely appraisal on the property. They could process the papers, but getting the appraisers on board and doing their job was causing as much as a month in delay. So I think this is way we can save some money and come up with a better system in working with Doug Barnard.

Since we are building a veterans hospital in Augusta, I think it would be appropriate for Mr. Barnard to invite us all down to the—

Mr. **Barnard**. Not this weekend, Mr. Chairman.

[Laughter.]

Mr. **Montgomery**. That we would come down—

Mr. **Barnard**. You would have to occupy the hospital to get a room.

[Laughter.]

Mr. **Montgomery**. Well, we're not getting very much help there. Thank you very much.

Ms. **Kaptur**. Thank you very much, Doug.

Mr. **Barnard**. Thank you very much.

Ms. **Kaptur**. We would like to call on Congressman Fofo Sunia from American Samoa. We really appreciate your being here this morning to talk with us about the particular problems of veterans housing as experienced by the veterans who reside in American Samoa. Thank you so much for being here today.

STATEMENT OF HON. FOFO I.F. SUNIA

Mr. **Sunia**. Thank you very much, Madam Chairman. I, too, apologize for being a little late this morning. There was a gentleman from home in my office and I was worried a bit. He was looking at the windows and I think maybe he was sizing up the color of the curtains. I wanted to make sure he left the office before he got to like it.

[Laughter.]

I will look at the record. I would like to see those glowing statements about me. I kind of like to hear those things. You know, in our business, we want to hear those things.

I sort of received that bit of education from my mother. My father was a church minister for 40 years. I would always hear my mother complaining that he only said glowing things about members of his flock during their funeral. She thought, very practically, that he should have said those things while the guy was alive to enjoy them.

[Laughter.]

I want to thank you for giving me this opportunity, and particularly for the Members who are here to listen to this testimony, particularly in the presence of the chairman of the full committee, whom I have spent an hour with this morning in counting this time, and ahead to spending 2 hours together this afternoon. This must be my lucky day.

Madam Chairman, the subject I want to address this morning is also very narrow, as you indicated, and that is the availability of home loans for veterans of the U.S. military living in the Territory of American Samoa, the territory I represent here in the U.S. Congress.

For the past 6 years, I have worked with several people, both in the territory and here in Washington, in an effort to extend to our veterans the benefits offered by the VA Guaranty Home Loan Program. Although progress has been made, I must regretfully report that these efforts have not succeeded. As a result, the veterans in my territory stand alone in not being able to enjoy this most basic and successful veterans benefit.

Many of the barriers to our participation in this program, Madam Chairman, stem from particular elements of Samoan society. The first obstacle which had to be overcome was the restrictive nature of American Samoa's land ownership system. The VA was not anxious to extend its guarantees to the territory without assurance that its funds would be protected. In response to these concerns, the legislasture of American Samoa approved a law which increased the maximum term of a property lease to 55 years, thereby ensuring greater stability of the loan applicants.

On the heels of this hard-won resolution—and I might say that the local legislature was a bit difficult in getting it—came word from our financing institutions that they were not eager to participate in a housing loan program, even with the promise of a VA guarantee. Their position, while unfortunate, is not very difficult to understand, for there simply are not the resources available in American Samoa to commit to such an ambitious undertaking.

Unfortunately for our veterans, there are only two banks in the territory, one local and very small, and the other a branch of the Bank of Hawaii. Neither was adequately prepared to participate in the VA program, for reasons I described a moment ago, and in subsequent discussions put forth additional conditions which made acquisition of home loans by our veterans even more difficult.

Madam Chairman, in the spirit of flexibility, I have joined with veteran groups in my territory in their efforts to seek an alternative solution. This solution, we believe, would be the establishment of a direct home loan program for the territory. The contention of our veterans, which I strongly support, is that this fundamental aspect of veterans assistance will be forever withheld from them unless there is a new approach to the problems that they now face.

If I can, let me digress for a moment to tell the members of this subcommittee about the special relationship between the U.S. military and my territory. It is, indeed, a unique one. Despite having been a part of the American family for only 87 years, American Samoa has more people in our Armed Forces today, per capita, than any other community of equal size, or even twice its size, in this Nation. I am very proud of that distinction, and the numbers continue to grow. In the next few years, practically every family in the territory will have a veteran in its midst.

Lying 2,600 miles southwest of Hawaii, American Samoa is the only U.S. presence in the increasingly important South Pacific Ocean. From our early association with the U.S. Navy, which administered the islands following their cession to the U.S. in 1900, American Samoa has had a long love affair with the U.S. military. Patriotism and pride in our territory run very, very high. Next week we will dedicate a new U.S. Army Reserve Center in the territory, named after the first American Samoan casualty of the Vietnam war, Sergeant Fiatele Te'o of Pago Pago village. The full-time Army recruiting office in the territory, Madam Chairman, is always busy, and the number of recruits seems to be limited only by the ability of the applicants to successfully master the entrance exam.

It is not surprising, then, that the roll of retirees continues to swell. They and their families represent the fastest growing group in my territory. And when they return home, following a career of service that often spans 20 or 30 years, they clearly have a need for housing. The absence of a home loan program from which they can borrow to build their dreams is truly sad. These men and women have served us well and have retired with the promise of certain basic benefits, only to find that we are unable to deliver on that promise. The ongoing commitment they have demonstrated to this country deserves better than that.

I have asked the chairman of this full committee, the Honorable Sonny Montgomery, to look into this problem. He has kindly consented to do so, just as he has responded to similar requests in the past. In his letter of November 18, 1983, to VA Administrator Harry Walters, Chairman Montgomery said, "It would seem to me that utilization of the VA's direct loan program would be warranted and would be an effective and prompt solution." It is my fervent hope that Chairman Montgomery's advice can be acted upon.

In order to highlight the predicament of the American Samoa veteran, let me add that the guaranteed home loan program is not the only benefit rendered partially or wholly unavailable to him or to her. Because the American Samoa Community College is the only institution of higher learning in the territory, the veteran has no choice of where to use his benefits under the GI bill. The veteran cannot exercise his or her shopping privileges because there are no commissaries in American Samoa. There is no VA hospital in the territory. The closest one is in Honolulu, 2,600 miles of seawater. And to see a VA officer, our veterans have to wait until the representative comes down from Hawaii once every 3 months.

Therefore, Madam Chairman, I urge you, I implore you, to do whatever you can to help the veterans in my district. The benefits I have just described would be nice to have, but a home is a must. In order to fill this gaping need, I feel we need to create a direct loan program, to be managed by the Ventera's Administration offices in Honolulu.

Again, I thank you for allowing me to make this presentation this morning.

[The prepared statement of Hon. Fofo I.F. Sunia appears at p. 128.]

Ms. KAPTUR. Thank you very much.

While you were delivering your testimony, Congressman Sunia, the chairman of the full committee was telling me what a beautiful area American Samoa is. He was describing the deep water port.

Mr. SUNIA. If Augusta won't take you next week, I'll be happy to do so.

[Laughter.]

Ms. KAPTUR. I wanted to ask you if you have any figures that would indicate how many veterans there are in American Samoa and how many of those might be likely to use such a program if it were created?

Mr. SUNIA. We have a figure, which I must admit is an estimate, of over 3,000 veterans. Our roll of retirees has just passed a thousand names. These, as I say, continue to grow because of the numbers of people who continue to return from service.

Ms. KAPTUR. Do you know the average price of a home in American Samoa?

Mr. SUNIA. A three-bedroom now, on island, the present cost, can be constructed for between $40,000 to 50,000.

Ms. KAPTUR. What about the average income of the veterans? Would they be able to meet the payments?

Mr. SUNIA. Well, of course, that would depend on a few things that you're more familiar with than I am, the veterans' income, particularly the veterans when they return.

Most of them, as you know, return with a skill, so they have no problem in picking up a job. Most of the retirees do have second jobs. Since 96 percent of the land is all community owned, practically everybody has a piece of land that he is entitled to, has a right to, so he does not have to buy land or lease land. So that takes care of that concern.

Ms. KAPTUR. Do you know if any of the local units of the Samoan government could set up some type of funding for the purpose of loans, like our Community Development Block Grants in many of the American cities, and if then the VA could guarantee those loans? Has that possibility ever been explored?

Mr. SUNIA. Well, the local government has a development bank which has a small housing program. I think that could be a possibility. No, it has not been explored.

Ms. KAPTUR. That might be something worth looking at, just as we are looking at various options on how this might be done.

If it is all right with you, I am going to ask the Veterans' Administration for some formal comment on the possibility of establishing a direct loan program for veterans in American Samoa. As you may be aware, the only direct loans made by the VA today are in connection with specially-adapted housing grants to veterans with severe disabilities, so this would be something very unusual if it were to, in fact, be created.

I guess, as I'm sitting here and listening, I'm thinking of different ways that this might be done if the direct route proves impossible, although I think we should certainly explore it.

Mr. Davis.

Mr. DAVIS. Madam Chair, I find myself unavoidably called away. I think Fofo made an awfully good case. There has to be a solution to this problem. His arguments are very telling insofar as all the benefits for veterans are concerned. Obviously, because of distance, we can't fulfill all those obligations to that thousand retiree list out there. But on this one, it seems to me we ought to be able to do something about it and I certainly will lend my voice to those that want to solve your problems.

Thank you. I must go now.

Ms. KAPTUR. Thank you very much for those comments.

Mr. Chairman, did you want to make any comments?

Mr. MONTGOMERY. Yes, I would like to make a brief comment.

Madam Chairman, my close friend, Fofo, was talking about the hour this morning we were gathered together. That was a prayer breakfast, and we missed you today.

Ms. KAPTUR. I know. I had another breakfast.

Mr. MONTGOMERY. I know.

Ms. KAPTUR. They always remind me, Mr. Chairman—if you will yield—they always remind me when I don't attend a prayer breakfast, but when I do attend, no one every says anything.

Mr. MONTGOMERY. We meet after Easter.

Madam Chairman, I'm rather embarrassed. As Fofo pointed out, he wrote me a letter back in 1983 about this situation. I did follow up, but we were not able to accomplish anything.

I would ask you to push ahead on this. This is something that we ought to be able to solve. As the representative from American Samoa pointed out, some of the most patriotic veterans to represent our Nation are out in that part of the world.

Thank you very much.

Ms. KAPTUR. Thank you, Mr. Chairman.

I just want to say that I will ask that the Veterans' Administration report back to us when they come up here and testify later this month, so we will specifically request that information.

Mr. SUNIA. Thank you. I might say they have been most helpful to us in our search for a solution to this problem.

Ms. KAPTUR. Thank you very much.

I have just been informed we have a live recorded quorum call. We have several other witnesses that are waiting. If it would be all right with you, it will probably take me 10 minutes to walk over and come back, so you may want to get a cup of coffee.

Thank you so much, Representative Sunia. We will continue to work with you.

Let's have a brief recess for about 20 minutes. I hope we can come back between 11:30 and 11:35.

[Whereupon, the subcommittee was in recess.]

Ms. KAPTUR. The subcommittee will be in order.

In the interest of time, and with appreciation to all of those witnesses who have waited, we would like to bring you all up on a single panel. We will ask you to make your statements within the 5-minute rule, and then we will open it up for questions.

I know Mr. Sethman is to be introduced by Congressman Tom Ridge of Pennsylvania, who will try to make it to the meeting. He was just over on the floor and was involved in some other business, so he is trying very hard to get here.

We would like to call on the witnesses in which they are listed on the agenda. We have Mr. John Radtke, president of Urban Revitalization America, Inc., Detroit, MI; Mr. Charles Bromley, executive director, National Neighbors, Cleveland Heights, OH; Mr. Allen Sethman, executive director, Housing Opportunities, McKeesport, PA; and Mr. William Whiteside, executive director of the Neighborhood Reinvestment Corporation.

We thank all of you gentlemen for being here today. We are really quite interested in what you have to say because we think you're a breath of fresh air as far as the future of veterans' programs is concerned and we are most interested in the experiences that you've had throughout the country.

We will call on Mr. Radtke first. I appreciate your returning at my request. You have testified before our Employment and Training Subcommittee and I think much of your experience around the country will be of great value to us as we look at how to refine the existng VA Home Loan Guaranty Program. So we welcome you this morning, Mr. Radtke.

STATEMENTS OF JOHN E. RADTKE, PRESIDENT, URBAN REVITALIZATION AMERICA, INC.; CHARLES BROMLEY, EXECUTIVE DIRECTOR, NATIONAL NEIGHBORS, INC.; ALLEN W. SETHMAN, EXECUTIVE DIRECTOR, HOUSING OPPORTUNITIES, INC.; AND WILLIAM A. WHITESIDE, EXECUTIVE DIRECTOR, NEIGHBORHOOD REINVESTMENT CORPORATION

STATEMENT OF JOHN E. RADTKE

Mr. RADTKE. Thank you.

Madam Chairman and members of the committee, I am pleased this morning to appear before the Subcommittee on Housing and Memorial Affairs to testify on the pressing question of affordable and decent housing and the important role that the VA's Home Loan Guaranty Program plays in that process.

Two weeks ago, as you are aware, I appeared before the Subcommittee on Education, Training and Employment to discuss the programs which URI has developed, utilizing our country's veterans in a unique public/private venture, combining job training skills and housing rehabilitation.

Urban Revitalization America, Inc. was founded 11 years ago to develop joint venture residential rehabilitation and community revitalization projects linking the U.S. Department of Labor, Veterans' Administration and HUD, along with a growing number of concerned and committed representatives of the private sector. In addition to these sources, contributing to the newly invigorated structure of our future endeavors will be a diversity of community organizations, nationally recognized real estate firms, State and local governments, and prominent home improvement companies throughout the country.

We believe, Madam Chairman, that our projects combining these unusual features have succeeded in securing affordable housing, have been a catalyst for future economic and community development, and have created a viable workforce, retrained as experts in residential rehabilitation, with sufficient skills to ensure long-term employment stability.

Over the past 10 years, URI has completed well over 10,000 residential rehabilitation projects and has provided job training skills to over 1,500 men and women, and URI has completed structural renovations on both single and multi-family homes, schools, and community centers.

The accomplishments that I have outlined would not have been possible without the cooperative assistance of both the Department of Labor and the Veterans' Administration in providing training funds. These funds have been indispensible in two respects. First, they have provided the essential skills for the retraining of hundreds of displaced veterans, and second, have been critical in allowing URI to leverage, in both an in-kind and cash contribution mode, assistance from numerous corporations. We have been fortunate to receive cooperation from such companies as General Motors, Dayton-Hudson, Dow Chemical, Johns Manville, and Alcoa, to name just a few. Most recently, we have discussed expansion of these efforts with the Meredith Corporation, Carrington Financial, and the Wickes Corporation, who are considering what positive role they can play in this new national project. The first phase commitment will include the hiring of 1,200 veterans, with a private sector commitment of well over $100 million.

Our initiatives, we believe, are particularly well suited to assist the VA in a comprehensive national effort to provide both affordable and decent housing for their targeted populations. As you are aware, the Veterans' Administration currently list in their inventory some 20,000 homes which are available for repurchase by families throughout the country. A number of these properties are in need of repair, ranging from major structural deficiencies to less severe problems incurred because of lengthy vacancies and subsequent vandalism. As a result, the ability to attract sufficient interest to purchase these homes has been diminished. Cities will refuse to issue certificates of occupancy on homes requiring additional work and attractive financing packages are foregone.

Large pocket population centers such as Houston, Cleveland, and New Orleans, to say nothing of Atlanta and Chicago, both cities which were visited by my staff over the past week, have unacceptably high numbers of properties available in their inventories. I suggest that these figures are unacceptable, not only because it would be profitable to sell these homes, but most importantly, because of the critical shortage of adequate housing available to millions of people today.

Also, from coast to coast we are faced nightly with the misery of our fellow citizens who sleep on grates, in alleys or parks, or if they are fortunate, bundled up in vacant buildings, huddled up not only against the environment, but against our own inability to devise an acceptable solution to this terrible tragedy, while in many cases, a very few feet away, lying vacant, boarded-up and shamefully empty, are dozens of properties which could easily be renovated for use by the displaced and the homeless.

This morning Congressman Evans and members of the committee have suggested the need for a structured funded nationally focused program, to provide inexpensive, long-term and temporary emergency housing to veterans. URI already has such an effort which we have utilized throughout the country using current legislation.

Our proposal, Madam Chairman, simply encompasses utilizing our training program, supported currently by VJTA dollars, to work in concert with the Veterans' Administration in Washington and the regional office, to renovate and rehabilitate a number of these properties. For those who are unfortunate enough to be homeless by either circumstance or economics, we would suggest working on a sufficient number of units in each community to provide temporary shelter to these citizens. Structured similarly to the well-known "Ronald McDonald" homes throughout the country, this effort would require no new legislation and, in almost every instance, no additional funding—merely the assistance, cooperation and a directive from the VA to effectuate such an effort. Materials would all be donated by suppliers to our project.

For the remaining populace, who are prequalified to purchase properties, but who live today in substandard housing, a similar initiative utilizing the same methods could be considered. A major difficulty that I have faced, however, is the lengthy period of time that is required by the Veterans' Administration to provide approval for a mortgage. In a sample experiment of 15 units in Michigan, approvals took an average of 6 months, a figure unacceptable if one is attemting to sell such large numbers of properties rapidly. The best we had was 94 days; the worst, 312. These were all new houses in a well-defined community. They were all similar.

We are confident, Madam Chairman and members of the committee, that initiatives such as this, fusing the dilligent efforts of veterans working in a job training program, with a coordinated approach to ensure that such renovated properties are effectively made available to those in need, is one good answer to this crisis.

I very much appreciate this opportunity to testify on this important topic and would look forward to answer any questions that may arise.

[The prepared statement of Jack Radtke appears at p. 131.]

Ms. **Kaptur**. Thank you very much, Mr. Radtke.

We would like to move next to Mr. Charles Bromley, executive director of National Neighbors, Inc. in Cleveland Heights, OH.

STATEMENT OF CHARLES BROMLEY

Mr. **Bromley**. Thank you, Madam Chairman.

I am Charles Bromley, executive director of National Neighbors, a national coalition of 260 multiracial communities. I am also coordinator of the Metropolitan Strategy Group, a coalition of Ohio multiracial communities and fair housing groups.

National Neighbors has worked to promote successful multiracial communities since 1968. We strongly believe that thriving integrated communities are necessary to counteract the racial conflict and discrimination that continue to weaken America's economy, morale, and world standing.

The VA home loan program has been an important instrument in giving millons of veterans the pride of home ownership. The benefits provided by this program are well deserved by our veterans and continue to enhance their lives and ultimately the communities in which they serve as valuable neighbors.

Any program the size of the VA housing program is obviously going to have a major impact on neighborhoods in our metropolitan areas. Recently, much concern has arisen at the neighborhood level about VA loan guarantees. The concern revolves around two issues—foreclosed property and enforcement of the fair housing provisions mandated in the Fair Housing Act of 1968 and the Housing and Community Development Act of 1974.

The problems of foreclosures in the VA loan program is one that the agency recently has sought to address with a more vigorous review of underwriting standards. This has helped to some degree, to ensure that loan applicants can actually afford the homes for which they seek mortgages. Nonetheless, the VA mortgage is still left categorized as a high-risk mortgage, since most purchasers pay less than 5 percent down. Research definitely shows that concentrations of high-risk mortgages in neighborhoods tends to produce concentrations of foreclosures.

For example, the city of Cleveland, in a study produced out of Cleveland State University's Department of Urban Studies, showed twice as many high-risk mortgages on the east side as on the west side. Invariably, we find that east side neighborhoods have higher rates of foreclosures than west side neighborhoods, with comparable demographics. We find the same patterns when we compare suburbs with similar demographics but differing incidences of high-risk mortgages.

The affects on communities are devastating. The community becomes aware of the problem only after the attendant problems become visible—high grass, broken windows, and criminal activities near the vacant sites, to name a few. The eventual outcome is, of course, a decline in the area's attractiveness and in demand for property among all potential home buyers.

I strongly recommend that the VA produce an impact report with numbers of VA loans for each census tract, much along the same lines as the HMDA reports for regulated lenders which have been submitted since 1975. I further recommend that as soon as a census tract reaches a level of, say, 20 percent VA guaranteed mortgages, the VA should immediately contact the municipality where the census tract is located.

Our second area of concern is the impact of the VA Loan Guaranty Program on fair housing and multiracial communities.

Public law states that "The Department of Housing and Urban Development and any other department or agencies of the Federal Government having powers, functions or duties with respect to housing, shall exercise their powers, functions, and duties in such a manner as will encourage and assist the development of well-planned, integrated, residential neighborhoods."

Because the VA's financing is unmonitored and unregulated, and the VA does not make public any documentation about the racial impact of the loan guaranty program, communities working to preserve open housing must struggle to obtain important data needed to help them maintain the vitality and heterogeneous flavor of their neighborhoods.

For example, the Greater Cleveland area is the most segregated metropolitan area in the country, according to Karl Taeuber, a demographer at the University of Wisconsin. However, we struggle with this title in Chicago, I guess, on an annual basis.

The Heights Community Congress of Cleveland Heights, one of the country's most successful and vital multiracial communities, spent 4 years and thousands of hours trying to get records from the VA to assist community lenders in identifying the racial impact of the VA Loan Guaranty Program in the city of Cleveland Heights. Ultimately, some data was turned over to the HCC, but only after extensive litigation. The city of Cleveland Heights now has a field operation to obtain VA loan guarantee information. The data that was finally acquired by the HCC showed a strong correlation between concentrations of foreclosures of VA-mortgaged homes and neighborhood resegregation in the Heights neighborhood.

I propose the VA Loan Guaranty Program maintain an inventory of loans made by race and census tract. I further propose that, as soon as a neighborhood begins to resegregate at the same time that the VA is awarding a disproportionate number of minority loans, the VA should give pre-purchase counseling to applicants in that neighborhood to advise them of the full range of their housing choices. The VA should be particularly conscious of informing minority veterans of properties in predominantly white communities, to which they are all too often denied access.

Veterans have served their country well. They deserve to come home to cities that are not filled with racial tensions and divisions, but relfect the congressional mandate of well-planned, integrated residential neighborhoods. The VA has done a good job of giving veterans access to affordable housing, but our veterans are equally entitled to live in nonsegrated communities that are safe, attractive, well-maintained and economically stable.

Thank you, Madam Chairman.

[The prepared statement of Charles Bromley appears at p. 134.]

Ms. Kaptur. Thank you very much, Mr. Bromley.

I wanted to ask our very dedicated and energetic colleague from Erie, PA, Mr. Tom Ridge, if he would like to introduce the next witness.

Mr. Ridge. Thank you, Madam Chairman. I certainly appreciate your willingness to allow me to participate in the subcommittee hearing this morning and to introduce the next panelist, Mr. Allen Sethman.

Your efforts in bringing to light at this hearing the strength and weaknesses of the VA Home Loan Guaranty Program serve well the thousands of veterans who have participated in the program. Clearly, the strengths have far outweighed the weaknesses, as evidenced by your tribute to the 45-year history of the loan program, which has served well over 12 million veterans, including myself.

Many of us have been especially concerned about what we perceive as some shortcomings in the Veterans' Administration's servicing of delinquent loans. Veterans who have been assisted by the VA in buying a home they could not otherwise afford deserve the same level of support and help when confronted with a serious dilemma of unemployment, too often brought upon them through no fault of their own.

Our next panelist, Mr. Allen Sethman, has worked diligently in Pittsburgh, Pennsylvania, along with other Members of Congress in the northwestern Pennsylvania area and the northeastern Ohio area, in developing a foreclosure prevention program to assist homeowners through counseling and other foreclosure prevention measures. In his testimony, Mr. Sethman highlights the successes of the program in preventing foreclosures, but he also points out some experiences and some shortcomings his hands-on experience has identified within the VA in servicing delinquent loans.

Madam Chairman, I hope the subcommittee has an opportunity to consider carefully his comments and his recommendations, and I thank you again for your kind welcome to him and the courtesies you have extended to me this morning.

STATEMENT OF ALLEN W. SETHMAN

Mr. SETHMAN. Thank you, Congressman Ridge.

Madam Chairwoman, Housing Opportunities, Inc. began in 1975 as a private, nonprofit corporation, located in McKeesport, Allegheny County, PA. Housing Opportunities developed in 1983 a foreclosure prevention program that we entitled HOPE, which is an acronym for Home Ownership Protective Effort. The HOPE program was developed in response to high levels of unemployment and underemployment in that were occurring in western Pennsylvania, particularly as they related to the decline of the steel industry. As a result of families losing their jobs, increasing mortgage and utility delinquencies began to occur.

In 1983, the HOPE program was developed as a pilot that involved five local lending institutions and two major utility vendors. The participating private sector entities agreed to pay Housing Opportunities for counseling services to effectively deal with delinquency problems. The 1-year pilot proved very successful in decreasing mortgage and untility delinquencies and provided a cost-effective method of dealing with unemployment and underemployment problems.

As a result of the HOPE pilot program's success, the Department of Housing and Urban Development agreed to replicate this effort in Cleveland, OH, Youngstown, OH, Erie, PA, and Sharon/Farrell, PA. This replication has resulted in franchise agencies implementing the HOPE program in Youngstown and Cleveland, OH and we hope to have the agencies established in Erie and Sharon/Farrell, PA within 60 days.

The HOPE program provides a threefold approach to providing long-term solutions to the unemployment problem. First, extensive financial and budgetary counseling assures that families are prioritizing their expenditures and reducing unnecessary debt. Secondly, the HOPE counselor makes sure that client families apply for all eligible public moneys for which they are eligible. Additionally, the nonprofit agency implementing the HOPE program develops local private sector resources to complement the families' situation.

In the five-county area of Allegheny and the four surrounding counties, Housing Opportunities, since 1983, has been able to develop approximately $270,000 worth of private moneys that complement directly the plight of the delinquent families.

Thirdly, the HOPE program motivates and directs families to job retraining and any available reemployment programs that might be available at the time. This three fold approach assists families in dealing with the crisis situation of mortgage foreclosure or utility disconnects and develops a long-term plan to resolve the financial problems.

The HOPE counselor remains involved with the client family on an average of 12 to 14 months in this program, so it is more than just a band-aid solution to the immediate crisis. It is intended to provide long-term solutions that lends to financial stability of the client family.

The public/private partnership exemplifies how these social services can be provided in a cost-effective, professional manner. The obvious missing sector in the HOPE foreclosure prevention system is participation by the Veterans' Administration in a similar manner that the FHA participates. Local mortgage services are reluctant to pay for counseling services when the mortgage is insured. This reality has prompted the FHA to provide the counseling fees when the loan is FHA guaranteed. A similar relationship with the Veterans' Administration would assure that veterans who are victims of unemployment or underemployment could receive these much-needed services.

Over the past 5 years Housing Opportunities has dealt directly with the Veterans' Admnistration on behalf of client families and, through various consulting contracts, have worked with 33 nonprofit counseling agencies throughout Pennsylvania that are involved in some way with delinquent mortgage counseling services. The experience of Housing Opportunities and of the majority of counseling agencies that I have worked with have found the following shortcomngs in the VA's servicing of delinquent loans:

First, the Veterans' Administration has no program equivalent to the FHA assignment program. Many veterans who purchased their home using VA benefits could have qualified for FHA financing and been eligible for a comprehensive program to deal with the temporary loss of income. The Veterans' Administration should offer at least equivalent safeguards to foreclosure as the FHA and, arguably, should offer better programs.

Secondly, the Veterans' Administration is very inconsistent in providing counseling and forebearance agreements to delinquent mortgagors. The inconsistency exists between regional offices and within a regional Veterans' Administration office depending on the loan servicer you work with. The consistency of information and options to foreclosure should be available to all veterans.

Thirdly, the Pittsburgh area is currently advertising over 300 Veterans' Administration foreclosures for sale to veterans or non-veterans. Many times these homes are sold far below their fair market value. This strategy, though successful in reducing VA housing inventories, negatively impacts the property values of other neighborhood homes, particularly when the VA-repossessed properties are located in a concentrated area within an innercity neighborhood.

Number four, the extent of the Veterans' Administration housing inventory, coupled with the average loss per foreclosure, should be looked at very closely to determine if additional foreclosure prevention strategies offered by the HOPE program should be developed.

Housing Opportunities would encourage the Veterans' Administration to consider participation in the HOPE program as a cost-effective way to provide additional needed services to Veterans' Administration delinquent mortgages. This public/private approach in dealing with the foreclosure issue has proved successful over a 4-year period and could be of mutual benefit to the Veterans' Administration and the veteran mortgagors.

[The prepared statement of Allen W. Sethman appears at p. 137.]

Ms. KAPTUR. Thank you very much, Mr. Sethman.

Before I call on Mr. Whiteside, I just want to say I hope you gentlemen know how very interesting your testimony is. I wondered, as I sat here, whether you knew one another before you got here. It is all from different perspectives, but if we put it all together, it will make major improvements in our ability to keep veterans in this housing and provide for some sound neighborhoods.

I want to thank Mr. Whiteside for being here this morning. He was asked on very short notice last week, when we discovered that Neighborhood Reinvestment Corporation was aware of the CalVet Housing Program in California. I really do appreciate the extra efforts you made to be here today and to prepare testimony, which is even typed and available to the members. So we appreciate it.

STATEMENT OF WILLIAM A. WHITESIDE

Mr. WHITESIDE. Thank you very much, Madam Chairwoman. It is a pleasure to be here and a pleasure to be on the panel with these distinguished spokespeople for the neighborhoods that we're all serving.

I am the executive director of the Neighborhood Reinvestment Corporation, a congressionally-chartered corporation. We have been operating in this corporate framework since 1979, and before that, as the Urban Reinvestment Task Force, and before that as an office of the Federal Home Loan Bank Board. Our primary mission is to assist Neighborhood Housing Services programs in their development, with technical assistance and financial assistance, and in their work to stabilize and revitalize neighborhoods for the benefit of the low- and moderate-income occupants of those neighborhoods.

There are 2.4 million Americans whose household incomes are 72 percent of the median household income for the U.S. living in NHS neighborhoods. Since beginning work in the early 1970s, we can track $4 billion in reinvestment in the NHS neighborhoods throughout the country. Currently, NHS is operating in 137 cities, serving 239 neighborhoods.

In preparation for this hearing, we sampled local programs' experience but have not had the time to survey them all or, indeed, to thoroughly familiarize oursevles with Veterans' Administration Home Loan Guaranty Program regulations and practices. It is with this caveat that we offer the following observations and recommendations. If the committee wishes, we will pursue specific areas to obtain more complete data for the record.

The observations fall into three categories: First, the use of VA loans for the sale of properties; second, problems related to VA loans experiencing delinquency and foreclosure; and third, difficulties in turning foreclosed VA properties into neighborhood assets.

In relation to the sale of properties in neighborhoods that are declining or not yet returned to a fully self-reliant basis, the impression we have from surveying neighborhood housing services' staff, neighborhood realtors and foreclosure counselors, is that VA loans have been little used in NHS neighborhoods for the benefit of the veterans who live there or who might wish to live there. While the loans have below market interest rates and lower down payment requirements than FHA, the higher origination fees, the requirements that sellers make designated repairs, and a perceived slower processing time limit the program's utilization.

In some neighborhoods undergoing changes in racial or economic populations, an untoward effect has been that VA and, to an even larger extent—FHA loans, helped middle-income buyers "buy up" without requiring significant cash—and thus, leave the neighborhood—and enabled quite low-income buyers to enter the market without cash reserves. Without cash reserves, the low-income buyers often face insurmountable repair costs a few years later. The reason for this is that the required repairs are often seen as superficial masks over more serious obsolescence in an older structure, and that a system in working order often meets inspection requirements, without regard to the probability of its need for early replacement.

Loans for very low-income borrowers might better be structured to build in money for appropriate upgrading. A modestly priced house of $30,000 to $50,000 may need $8,000 to $10,000 in improvements within 2 to 4 years. Without a financial cushion, such improvements require an expensive second mortgage, are deferred, or can lead to a default if the home becomes unlivable.

A number of NHSs have seen the Veterans' Administration as unnecessarily rigid in its underwriting. Two examples of this: One, an application by a 20-year military retiree during his first year of civilian employment; and two, an application by a family whose income needed the earnings of the wife who was in her first year of job reentry after child-rearing. In both cases, the loans were denied based on a 1-year employment rule, although in both cases the borrowers were considered to be outstanding risks.

Finally on this subject, the Gainsville, FL NHS reports that as a result of a new appraisal requirement, they are now unable to make use of VA loans in their Home Ownership Promotion program. Appraisal prices in this community must now reflect the appraiser's best determination of what the property could be resold for within 90 days. Since the current market conditions usually result in properties being listed for 180 days, the appraisals yield a "forced sale" value, effectively ending the potential of VA sales.

In the second—Am I out of time?

Ms. **Kaptur**. You may proceed.

Mr. **Whiteside**. In the second problem area are problems related to VA loans experiencing delinquency and foreclosure, I might mention that this is the opportunity for lenders, including the VA as a lender-guarantor and for nonprofit organizations, to intervene to prevent homelessness. It is an area which I think is far more important for the future than the excellent work going on in shelters, transitional homes, and housing for the homeless. There is a potential, given the outlook for rental housing during the next 20 years, for the number of homeless to grow exponentially and being able to intervene and prevent foreclosure is extremely important.

Many NHSs and other neighborhood nonprofit organizations work with lenders to intervene in foreclosures in an effort to prevent displacement and homelessness. Foreclosure counselors and NHS directors were unanimous in claiming that FHA was easier to work with and was more responsive in areas such as timely replies, flexibility, and willingness to forebear for valid reasons, such as sudden unemployment, health problems, accident or injury.

The VA procedure was seen as inflexible and too slow. By the time the VA acts, the loan is essentially in foreclosure. Families are intimidated by the paperwork, and it is believed that owners sign deeds in lieu of foreclosure because of this intimidation, even when it makes no economic sense for them to do so, and they lose whatever equity they might have acquired.

In addition to having too little time to counsel and assist the family with its economic problems, there is no time as an alternative to help the family undertake a successful sale of the property. Two particular problems cited are that the VA lacks a set of widely distributed guidelines under which forebearance negotiations can be considered, and second, the VA does not have a requirement that mortgage companies notify delinquent borrowers of counseling services sufficiently early in the delinquency to do any good.

We realize that the VA may have policies to deal with the problems cited, but if that is the case, they are not widely communicated. In fact, the VA is viewed is impenetrable by nonprofit organizations engaged in assisting lower income neighborhood residents deal with housing problems.

The third area I would like to speak to very briefly is the difficulties in turning foreclosed VA properties into neighborhood assets. The area of greatest frustration is the handling of foreclosed properties. The greatest single complaint is that the appraisal process is too slow and inflexible. It is argued that appraisals sometimes take 6 months to do, and then another 2 months of processing, before a property is listed or auctioned. Few of these houses could withstand a northern winter boarded, an assault of vandalism, or a summer of overgrown grass, weeds, and litter, and still sell effectively for the original appraisal price.

When a nonprofit, a city government, a real estate agent, or a private individual makes an offer for negotiation, it is widely believed that the response will be negative. There appears to be little flexibility in the VA sales system, and since there are fewer offices than with FHA, there seems to be even greater distance between the decisionmakers and the property.

Madam Chairman, you will be interested in a couple of examples from Toledo, OH, where the NHS predicts that a VA property in foreclosure for 6 to 8 months will lose as much as 80 percent of its value. They cite an example of a property on the 2500 block of Lawrence Street that sat vacant for 4 years, although the NHS, the city, and the neighbors all made formal inquiries and complaints. Since no response followed, the city was forced to demolish the then unsafe eyesore which had diminished the neighborhood for years and is now a troublesome vacant lot. In another case when NHS tried to intervene on a 2-year long foreclosure at 2435 Lawrence Street, it was rebuffed and eventually the vandalized property traded for $3,600.

In Kansas City, MO one real estate broker suggested that in dealings with VA and FHA on repossessed properties, a negotiation with FHA could take a few minutes and result in price flexibility, while the same negotiation with VA could take 2 or 3 weeks and would have little hope of succeeding. Moreover, the broker suggested that nonprofit groups in particular can be successful with FHA and not with VA.

I will shorten my remarks in the interest of time and get to the recommendations we would like to make. We are not expert enough in this area to make sweeping recommendations on general VA policy, but I thought it might be appropriate to suggest some small, limited pilot projects that we would be willing to work on with the local programs and the VA, if they would like. The pilot project would work within real time limits and with real world situtations to develop methods of dealing with some of these problems.

For example, the NHS could promote the effective use of VA loans to more properties in the neighborhood—advertisements to the veterans. This would require some flexibility in underwriting, but more importantly, would require VA to build rehab into loans or allow combination rehab loans with the NHS.

Also, an effort similar to a joint NHS-CalVet project in San Bernardino could be repeated in other communities, where veterans could be given preference in a program to build their own homes under the supervision of the local Neighborhood Housing Service program, taking title to their homes at a fraction of their market value, resulting in a very low loan-to-value ratio for the Veterans' Administration and a high equity for the homeowner, based on the sweat equity that they had put into the property. We have experience with this and would be pleased to work with the VA in other communities.

In the second area of delinquency counseling, we would love to participate with the VA in a demonstration, where NHSs could enter earlier, perhaps by direct contact with borrowers, at 30 days delinquency. Assigned VA staff could develop a close working relationship with the NHS and assist it in understanding and using the full flexibility of forebearance guidelines.

Third, in a pilot effort to turn VA owned properties into neighborhood assets, the VA could allow direct purchases and/or options on houses at negotiated prices for the purpose of resale to homeowners or long-term use for lower income rental housing. The NHS could supply rehab counseling and secure rehab financing to make the deals work. State and local governments, as well as FHA, are involved in similar relationships with nonprofit organizations.

Thank you very much for the opportunity to present these observations and recommendations.

[The prepared statement of William A. Whiteside appears at p. 141.]

Ms. KAPTUR. Thank you very much. That also was excellent testimony. I have so many questions, I don't know where to start.

I thought I might begin with Mr. Radtke. It is my understanding that, after this hearing, you have an appointment with the Chief of Property Management at the VA?

Mr. RADTKE. That's correct.

Ms. KAPTUR. It is a bit unclear on whether you're interested in renovating or whether you're also interested in acquiring foreclosed properties. Might you give us the benefit of what your intentions are?

I think one of the basic questions I have for all of you—many of you have made specific recommendations in various areas. I think the question I ask myself is what do we, as members of this committee, ask the VA for. So I hope before you leave here, through the questioning period, if you want to react to one another's testimony as well as to our questions, that will help us think through some of this, what might be some of the things we can ask the VA for. You sounded like everything was fine and you have had a very good working—

Mr. RADTKE. I'll tell you after 4 o'clock.

[Laughter.]

We have done large rehab projects in neighborhoods that were available for redevelopment. Throughout the course of the last 10 years we have put together a group of people and companies that can afford to invest in us. We have found that to give someone a dilapidated structure is not doing them any favor, because if they cannot afford to pay retail, how in the world are they going to be saddled with having a house rewired or replumbed?

What we want to do is give the people a finished house. We go in and bring it up to code and also make it very attractive, so that the home will not only an asset to the community but a financial and a personal asset to the occupant.

So what I want from the VA today is the availability to negotiate a large parcel of units in certain predetermined cities. Then, with private funds, we will renovate those and resell them.

Now, because of the nature of the way we renovate, our costs are extremely conservative, and they can be passed on. It has always been our mode that we pass the sayings on because we would rather have a quick turn.

Because the neighborhoods that we usually address some of the situations involve displacement, or perceived displacement, we normally will donate one or two units that can be used by whatever neighborhood organization is capable of handling that type of a gift. If they wish to use them as halfway houses or, in this case, temporary housing, so be it.

More important is to put people in homes that they can afford to maintain. By looking through the loss of return on invested capital, if the VA would realistically look at this, cut their loss up front—and what is the difference if they're going to lose the money anyway—to reinvest in an individual who could take this equity, as long as they are able to take this opportunity and make it that much more valuable.

So today I will ask for an agreement to look at properties in roughly eight cities and to make a bulk purchase.

Ms. **Kaptur**. Have you found it difficult, as a nonprofit organization, to deal with the VA? I don't want to cause you any problems, but I'm hearing different messages.

Mr. **Radtke**. I really haven't. I always go there with money in hand, which is maybe a little bit different. I have had very good luck with the Labor Department, with the HUD, and with the VA, with whatever other opportunities that have presented themselves.

Ms. **Kaptur**. Of the 10,000 homes that you've rehabilitated around the country, those would also be FHA, wouldn't they?

Mr. **Radtke**. Yes, they could have. They were either tax delinquent, or they could have been FHA.

But the VA inventory is very good, and why not redevelop it. It's available. It's an opportunity. You have a whole segment of people who are looking for homes in the $30,000 to $80,000 price range that are totally excluded. Why not put people back these homes, as long as you can do enough of them, so that it makes the area attractive and secure.

Ms. **Kaptur**. Do you feel that the VA is working with other organizations like yours, or are you sort of the "radish in the salad"?

Mr. **Radtke**. I have no idea. But I've always had very good response from them.

I think that they would not be interested if you were not able to deliver. If we can find the units, and after we inspect the units, as we did last week in Atlanta and Chicago, we will make an offer to purchase.

Ms. **Kaptur**. I have several questions, but I want to defer to Congressman Ridge after this question of Mr. Bromley.

You talked about the problems of concentration, east Cleveland versus west Cleveland, and the role of the VA and FHA in financing houses in those areas. You make a suggestion about HMDA.

I thought that because we only guarantee loans that are made by the private sector, that the VA records would be disclosed under HMDA and CRA. That is not true?

Mr. **Bromley**. No. All you know is that a bank, bank one, made the loan. It does not tell you if it was a VA-guaranteed loan. The only way you can determine that is to go to the county recorder and get their records and make a determination of the loans that are less than 5 percent down. We call those, collectively, "high risk" loans.

Ms. **Kaptur**. I found that interesting.

Mr. **Bromley**. I mean, some people are able to maintain the payments, and there are others who do not. I think that is actually a lender term. They use the word "high risk". It's less than 5 percent. You will find, whether it is an east side or west side neighborhood, you can have neighborhoods that have exactly the same demographics but you will have a high concentration of high-risk loans.

It seems to me the VA has some responsibility, before a company comes along and buys all their inventory, to let them know that these loans are being concentrated in a particular neighborhood. Because it is all too often that you have all these other following, attendant problems that can overwhelm a community very rapidly.

Ms. **Kaptur**. I thought it interesting, that you said these loans are concentrated in the central part of Cleveland, and Mr. Whiteside said that many of the neighborhoods in which they work viewed it as a suburban program.

Mr. **Bromley**. Really, there are two examples. One is, the east side/west side of the city of Cleveland, and then there's the city of Bedford Heights and the city of Parma. Both have the same kinds of demographic data, but in the city of Parma they have virtually no high-risk loans, and in the city of Bedord Heights they have a huge concentration of high-risk loans. The east side/west side of Cleveland is—you know, I think certainly race is a factor, but it is also just where the concentrations of these loans are.

Ms. **Kaptur**. Congressman Ridge.

Mr. **Ridge**. Thank you, Madam Chairman.

Mr Whiteside, is it your understanding of the regulations that a career soldier, sailor, airman or whatever, having 20, 25 or 30 years, regardless of economic ability, is disqualified for consideration under the VA loan guaranty program within the first year of his retirement?

Mr. **Whiteside**. In the caveat of my statement about our early data gathering in this, I indicated that we are not experts in the regulations. It was reported to us by one of the local NHS programs that a 1-year employment record was required of this particular career retiree. Whether that was in keeping with or in violation of VA regulations, I don't know.

Mr. **Ridge**. Thank you.

Some of you gentlemen may be familiar with the VA's home retention program, a program which has been initiated by the VA, that I am told is somewhat similar to the FHA assignment program. And yet in your testimony, Mr. Sethman, Mr. Bromley and Mr. Whiteside, I get the very distinct impression that the VA performance to date is not consistent with FHA's performance with regard to notification of availability of counseling services and with regard to forebearance.

Would you generally comment, based on individual experiences that you have had, on what the primary differences are? I would ask you to go first, Mr. Sethman.

Mr. **Sethman**. Yes, thank you.

First of all, the program that the VA offers again is inconsistently offered. They do have a refunding program that, in a liberal interpretation, allows a veteran who was unemployed but is now fully employed, and is able to begin making full payments, plus partial payments against arrearages, and would within a 1-year period be able to get current, they would put them under that program. That means the veteran is again reemployed, where they maybe have 3 months of arrearages and are able to make one-and-a-quarter payment each month.

What I found is that's really a liberal interpretation of the use of the refunding program. In many cases, the VA has merely said they have no such program available. So there is a lot of discrepancy as to when that program is used, how flexible it is to meet the veteran's need, and in some cases, whether they are even advertising the availability of it.

The next point that I would like to emphasize is that the VA has historically been relying on outside, nonprofit agencies to in some way get involved with the family, to facilitate the negotiation for forebearance or whatever alternatives to foreclosure can be pursued. Those nonprofit agencies do not have other means to fund themselves because the VA doesn't provide any kind of support to those nonprofit agencies to provide these services.

I can say that when I go to the Pittsburgh regional office, or one of Housing Opportunities' counselors does, on behalf of a VA client, I can get one set of resolutions. If that client family walked in that door without the involvement of Housing Opportunities, they would not get that same set of resolutions. Those resolutions have only been achieved over a long perod of confronting the VA with what their rhetoric of performance is and what the reality of their services is. There is really no established way that a veteran client comes to Housing Opportunities, and secondly, there is no way that Housing Opportunities can fund that service without some participation by the Veterans' Administration and reimbursing us for those counseling services.

Mr. RIDGE. Just to follow up—and I know Mr. Whiteside wanted to say something—on those counseling services through FHA, what is your financial arrangement with the FHA?

Mr. SETHMAN. The FHA has a contract with us to provide those counseling services. They pay the counseling services on what they call a counseling unit basis, which is $25 per unit. They have a contract with us to provide those services.

I should also add that their assignment program is really a 3-year period that a family can qualify for to get through the unemployment or loss of income cycle and back on their feet. The VA has absolutely no such equivalent. If you can prove loss of income through no fault of the family, you are very likely to get a family qualified under the FHA assignment program and would then have up to 3 years to counsel with the family, to get them reemployed at a level adequate to resume regular payments. At that point they would take the accrued arrearages and add them on to the back end of the loan, of the mortgage, and just extend the years of the loan.

Mr. RIDGE. Mr. Whiteside, would you care to comment?

Mr. WHITESIDE. Yes. What we learned in this survey of the local programs is that there is a great lack of communication of what the VA is willing to do in the area of delinquency counseling and forebearance. The regulations and practices that they're willing to follow are not codified, or at least not made available to people who are in foreclosure counseling. It is a very frustrating situation, when you're attempting to represent a family and help them hold on to their home, and you have a blank wall that you're negotiating with and you don't know what your powers are.

Mr. RIDGE. Thank you, Madam Chairman.

Ms. KAPTUR. I was sitting here and thinking that the message we get from you is a bit different than we've heard from some of the other organizations that have tesfified before our committee and are very supportive of the VA program, which, of course, we all are. But I think what you're reflecting is a need for change, some minor changes, refinements, in the VA program, 50 years or 45 years after it was originally created. I was thinking back to when it was initially established, after World War II, and really what we were doing was guaranteeing new construction and basically built suburban America all over this country. Now, 45 years later, what we've got is, for the most part, is existing stock.

Really, I don't think the VA initially perceived itself as a real housing agency in the way that maybe HUD would. HUD wasn't created until many years later. Perhaps one of the reasons that they haven't really fine-tuned their dealings with organizations that are used to working with housing is because they have been such a guarantee-oriented agency. It's been more the paperwork and financing side of it—and I wouldn't want to speak for them.

But now is an opportunity to make just a few changes from the policy level and to meet some of the very serious needs that each of you have identified.

Tom, did you have any other questions that you wanted to ask, because I would ask a few here.

Mr. RIDGE. Thank you. Just one.

To follow up on the things that were said, do I understand correctly, Mr. Sethman, that in your experience the VA retention program really gives you a year within which to work, and FHA gives you a 3-year period within which to work?

Mr. SETHMAN. That's correct, with the caveat that in order to qualify for the VA, you have to already be reemployed, have already gone through the temporary unemployment cycle, be reemployed, and be able to commence regular payments, plus something on the arrearages.

Mr. RIDGE. Is that your experience as well, Mr. Whiteside and Mr. Bromley?

Mr. WHITESIDE. I don't have the details on that.

Mr. RIDGE. Mr. Bromley?

Mr. BROMLEY. Our experience with the VA is a lack of communication back to the community or back to the groups that are dealing with this issue. It is the big wall.

Mr. RIDGE. Madam Chairman, I get a sense as well, that one of the problems which seems to be a consistent thread through all of the testimony is the absence of specific guidelines, the absence of consistency from office to office, and frankly, the absence of a known policy.

Mr. WHITESIDE. Right.

Mr. RIDGE. It's nice to have one, first, and then to make sure it's consistently applied.

So I again thank you, Madam Chairman, for the opportunity to sit in. If you don't mind, I think I will be back on April 22 when you continue the hearing.

Ms. KAPTUR. You're welcome to. We are going to ask the VA to respond in their testimony to—We're going to wring your testimony dry, try to organize the various recommendations, and then have them respond as they testify here later in the month. That is one of the reasons we wanted you to testify first, so that we could begin to really understand what is going on there.

As I see it, there are different layers we're talking about. One is the kind of counseling, which has even been difficult at HUD, to try to get a counseling program going and keeping it consistent and develop that expertise so it's out there in the country. It is needed. And we want to prevent the kind of homelessness that Mr. Whiteside referred to, this whole area of forebearance, and of trying to prevent the foreclosure in the first place. Servicing this whole aspect is one general area.

Another one has to do with rehab and how we begin to take a look at the needs of the existing housing, not just the new construction—that is much easier—but the existing housing stock that the VA has managed to obtain over all these many decades, and how can we better refine that system for yourself and your organizations and many other organizations that could contribute to community improvement around this country.

I know in my own community I have a list of four homes here that my city government gave me, and we're trying to figure out why they're sitting there for months, for years, and nothing is happening. So we're starting from the bottom up, which is what you've done in many places.

A third area that I think you referred to, Mr. Bromley, is the concentration aspect. I don't know quite how to deal with that. I think somehow we should get this information reported. I am a member of the Housing Subcommittee of the Banking Committee and maybe we should amend HMDA. Whether we do that or do what you say here, I'm not quite sure. We're going to take a look at that so we can understand what's going on out there and that the VA is aware of what it's doing as a housing agency, even though it may only look upon itself as a guarantee authority. Maybe they should be a little more "hands on".

I think, Mr. Whiteside, with your excellent efforts around the country in hundreds of neighborhoods, we would really welcome your participation. If there are ways we can continue to work with you on demonstrations, or to take some of the recommendations you have here, any additional information you wish to submit for the record, we would certainly welcome that.

Last year we guaranteed some 601,000 mortgages around the country. We're about half the size of FHA, so we're talking about a major housing arm of the Government of the U.S. We want to make sure that it's fine-tuned to the best of our ability. So we appreciate you being here.

If you think of things, or if you talk now together and you think "oh, gosh, I should have mentioned that," I hope you will feel free to submit that to us for the record. The record will remain open and we will be having hearings where the VA will testify on April

22. If you're located here in the city and wish to listen to that, that record will also be available after the hearing is completed. So we appreciate your being here today. This was just an excellent panel. We couldn't have asked for a better one. Thank you so very much.

I will say also for the record that Mr. Dan Burton asked consent that he be permitted to submit questions for the record.

The subcommittee is adjourned.

[Whereupon, at 12:40 p.m., the subcommittee was adjourned.]

OVERSIGHT OF THE VA HOME LOAN GUARANTY PROGRAM

WEDNESDAY, APRIL 22, 1987

House of Representatives,
Subcommittee on Housing and Memorial Affairs,
Committee on Veterans' Affairs,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:03 a.m., in room 340, Cannon House Office Building, Hon. Marcy Kaptur (chairman of the subcommittee) presiding.

Present: Representatives Kaptur, Montgomery (ex officio), Patterson, Burton and Davis.

Also Present: Representative Hammerschmidt.

OPENING STATEMENT OF CHAIRWOMAN MARCY KAPTUR

Ms. Kaptur. The subcommittee will be in order.

I would like to say that in continuing these hearings, which we began over a week ago, I have some formal comments that I would like to submit for the record. But in opening this morning I would like to say, for those of you who may not be aware of it, the Veterans' Administration closed it's 12 millionth home loan recently, after 43 years of operation. I think we as a Nation can be very, very proud of that record.

The purpose of the meeting this morning is to take a further look at the overall scope and design of the VA Home Loan Guaranty Program, at its strengths and weaknesses, from a policy perspective. We are interested in program management and we are welcoming all the witnesses today to comment on that, the loan processing and credit-writing procedures, appraisals, foreclosures, property management and sales, as well as some of the issues that relate to manufactured housing. We are really looking for recommendations for improvements and innovations in the Home Loan Guaranty Program to better serve veteran home buyers.

We are also interested in all of the concerns of the homeless veterans. We are interested in their profiles, their numbers, as well as proposals to address the specific needs of that very special population, and we would welcome comments on Senator Cranston's bill, S. 477, that would transfer title to hard-to-sell houses from the VA's foreclosed property inventory. Any comments that the witnesses may have on the proposed legislative agenda that was included with the letter of invitation will also be welcome.

Our first witness this morning is a most distinguished Member of the House of Representatives, certainly one of the most intelligent and articulate, and a very hard-working Member of both the Armed Services Committee as well as the House Budget Committee. I understand the reason, Congressman Leath, that you are so successful in all of those efforts is because you began your career on the Veterans' Affairs Committee and, in fact, chaired this subcommittee at one time in your illustrious career. So we are most happy to have you here this morning and we are very favorably disposed towards your recommendations.

The floor is yours

[The prepared statement of Chairwoman Marcy Kaptur appears at p. 179.]

STATEMENT OF HON. MARVIN LEATH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. **Leath**. Madam Chairman, thank you. I appreciate very much the kind words. I did enjoy a number of years of service on the Veterans' Affairs Committee and would not have gone on the Budget Committee had it not been a rule that you can take a leave of absence from this committee and then come back when the 6-year tour on the Budget Committee is over.

I want to join you this morning in swelling with pride a little bit, as individuals and as an institution, for the fantastic job that we all have done—that means the Congress down through the years and the VA down through the years—with the VA home ownership program. I think it has been an enormous success. Certainly I think what we want to do is try to continue to make it that.

I appreciate very much you giving me the opportunity to testify this morning. Of course, as you mentioned, having once chaired this subcommittee, I remain vitally interested in the VA Home Loan Guaranty Program.

This morning I want to address a matter of concern regarding the restrictions placed on active duty military personnel in the refinancing of VA loans. Military personnel who are transferred to new duty stations, as well as Foreign Service officers and diplomatic personnel, are not allowed to refinance their VA home loans because they do not reside at the home.

The recent decline in home mortgage rates has resulted in lowered housing costs for millions of Americans, including tens of thousands of veterans. I have received many letters from service members who are not able to take advantage of these lower interest rates because they are not physically present in the home. In fact, even if the service member's spouse and children reside in the home, they are still ineligible to refinance it. The difference between mortgage payments on a loan at 9½ percent compared to a loan at a much higher rate, say at 13 percent, could mean $100 a month or more for veteran home buyers.

The current law, I think, needs to be changed. Many veterans with existing VA-guaranteed loans have refinanced their mortgages, but active duty military personnel are not able to do that because of these restrictions. So, Madam Chairman, I have introduced H.R. 1452, a bill which would change the current law to allow active duty personnel to refinance through the VA.

It just makes all the sense in the world that a person with a lower interest rate is much less likely to default. Why not guarantee a safer loan? Everybody benefits. The veteran gets lower house payments, fewer individuals default on mortgages, and the Government gets additional revenue from the VA funding fee, which is 1 percent.

Madam Chairman, let me say that certainly, as a former banker, I understand why this restriction exists. Certainly we don't want people using the VA system for investment purposes. It is designed to be a system for individual veterans. I understand probably why this was placed into effect. But like many rules and regulations, I think, quite innocently, we discover later on that it discriminates against some people.

Now, I discovered this quite by accident some several months ago when I was having a meeting with the Fort Hood area board of realtors. Obviously, Fort Hood, with two armored divisions and a 42,000 authorized strength, down through the years has become a place not only where active duty personnel live but where a number of military people retire.

We have what is called the 2nd Armored Division Forward, which is deployed in Germany, as a part of the 2nd Armored Division at Fort Hood, so we have many troops that are rotating on a 2- or 3-year basis, not only to Germany but other places around the world, that buy homes in the Fort Hood area and want to stay there and plan to retire there. What happens is, if this soldier is transferred, for example, from Fort Hood to Germany, even if his family stays at Fort Hood and he plans to come back there—perhaps he bought the house back several years ago at a time when interest rates were 13 or 14 percent—under current regulations, he can't refinance that house.

Certainly there is nothing perfect about the piece of legislation that I have introduced. I would hope that the subcommittee, in conjunction with the VA—and certainly it's not an adversarial thing because I have always found the VA extremely helpful, and I think they will be in this instance in helping us to solve a problem that exists, and at the same time protecting the interests of the Government in doing what probably the original intent of the legislation was. So if the subcommittee can refine the effort that I have made, I would be most appreciative of that.

What we want is a system that works and a system that will allow active duty military personnel to take advantage of—If a person buying a home wants to keep it and plans to either retire in it later or plans to rotate back there after 3 years or 6 years or whatever, I don't think they should be restricted.

The reason I got into this was that we were having what I thought was an inordinate number of repossessions in the Fort Hood area. I asked the question as to why are we getting such a high rate of repossessions, and they spoke up and said that one reason was that these people can't refinance these homes. In many instances, it becomes much easier for them just to walk away from it and not have to fool with it, than it is to try to keep paying a payment that is maybe in some instances several hundred dollars higher per month than it would be if they could refinance it.

So I think it is an area that we need to take a look at. It is an area that has probably come about more than anything else in the last several years because we now have a professional Army. Many years ago, when we didn't have an All-Volunteer Army, when we didn't have many lower enlisted grades that stayed in the service for many, many years, this problem probably wasn't as severe. But we do now have an All-Volunteer Force that is a professional force, and these people are going to rotate in and out, and they tend to come back in most instances and spend many years of their service at the same location. Because if you're in armor in the Army, you're going to spend a lot of time at Fort Hood, because that's the premier armor post in the U.S. Army. So it is not the kind of thing where it is 2 years, 2 years, 3 years, all over the world, as much as it was perhaps a number of years ago.

I think if we can do something to help that situation, not only will we help a number of soldiers and, I'm sure, sailors and airmen, but I think it will be a good deal for the Government. So I would hope that we could do something in a mutually beneficial way to help what I think is a situation that needs correcting.

I appreciate very much your allowing me to appear here this morning and testify.

[The prepared statement of Hon. Marvin Leath appears at p. 186.]

Ms. KAPTUR. Thank you very much for your excellent testimony.

Could I ask you, just so we understand your bill, do you cover people who are transferred within the U.S. as well as overseas?

Mr. LEATH. Yes. That was my intent. Perhaps some place in this there could be a degree of abuse somewhere that I can't see at this point. I'm not sure you can ever tighten the regulation down to where somebody doesn't slip through the cracks occasionally, but I think it can probably be done to where that would be very minimal. As far as I'm concerned, it wouldn't make any difference on whether the person was transferred to Germany or whether it he was transferred to Fort Knox. As long as he planned to come back and use that home again, I would think he should be allowed to refinance it if he can get a lower interest rate.

Ms. KAPTUR. And the family would remain in the home?

Mr. LEATH. I don't think it's necessary for the family to remain in the home. In many instances, I think the family will remain in the home. But let's say the soldier was transferred to a station where he could take his family. Obviously, if the person moved out of the VA house and then tried to buy perhaps another home in another area, that would be different. Maybe that's a refinement we need to put in there. But I don't necessarily feel that family members should have to be in the house before the refinancing could take place. I think there would be many instances where the family would probably accompany the service member and the family would intend to come back to that home.

Ms. KAPTUR. What you are looking at is families who are currently residing in the property, not necessarily new loans—

Mr. LEATH. Right.

Ms. KAPTUR [Continuing]. But people who would be transferred and given the opportunity to refinance at that point when they are transferred out?

Mr. **Leath**. As I understand it—and perhaps I'm not as conversant with it as I should be—but as I understand it, if anyone lives in the home now, they're eligible to refinance it while they're living there. I think this problem arises in instances where perhaps the home was purchased, say, at a time when interest rates were 12 or 13 percent, and they move away subsequent to that. They would say, "Hey, interest rates have dropped 2 or 3 points and I could get my house down to where it's $100 a month less, and I'm planning to move back there in another year or two." As far as I understand, that's the point at which they become ineligible, when the head of the family is not residing in the home at that point.

As far as I know, they can refinance it if they currently live in the home.

Ms. **Kaptur**. We would certainly be anxious to work with you on your bill, Marvin, and we will take it under advisement. We will certainly have the VA comment on this and try to see if we can't accommodate you in your proposal.

Mr. **Leath**. Thank you very much. I appreciate it.

Ms. **Kaptur**. We appreciate your coming by personally this morning. You're always welcome here.

Mr. **Leath**. Thank you.

Ms. **Kaptur**. I would now like to call the panel from the Veterans' Administration to the table, Mr. Thomas Harvey, the Deputy Administrator, and Mr. John Vogel, Chief Benefits Director. We are going to ask the witnesses if they would be so kind as to try to restrict their testimony to a 10-minute limit. We will make the entire document available for the record, but we would like to have the opportunity for questions.

We certainly welcome you this morning.

STATEMENTS OF THOMAS E. HARVEY, DEPUTY ADMINISTRATOR, VETERANS' ADMINISTRATION; AND R.J. VOGEL, CHIEF BENEFITS DIRECTOR, VETERANS' ADMINISTRATION; ACCOMPANIED BY KEITH PEDIGO, DIRECTOR, LOAN GUARANTY SERVICE, VETERANS' ADMINISTRATION

STATEMENT OF THOMAS E. HARVEY

Mr. **Harvey**. Thank you very much, Madam Chairwoman.

My name is Tom Harvey. I am Deputy Administrator of the Veterans' Administration. I have been in that position for about the last 6 months.

I would very much like to have you include my entire text in the record of this hearing and I would just like to make some summary observations this morning, if I may. I also would like to focus my comments on the homeless aspect of this hearing. John Vogel, the Chief Benefits Director, who is here with me this morning, and others here in the audience who are from the Home Loan Guaranty portion of the Department of Veterans' Benefits, are much better equipped to comment on the more technical aspects of the Home Loan Guaranty Program.

I would like very much to thank you and the subcommittee for focusing the attention that you are on the issue of homeless veterans in America. Homelessness in America is, as you know, a major societal problem today, and it is one that is particularly visible in all of the large cities I have visited. The forum that this subcommittee offers is a particularly fortuitous opportunity to focus on that issue and what the Veterans' Administration is doing to help address the issue of homelessness in America.

Since being confirmed as Deputy Administrator of the Veterans' Administration, I myself have had a special interest in this issue. As I have traveled, I have had an opportunity to visit homeless shelters and to visit with our Department of Veterans' Benefits regional offices and travel with the veterans' benefits counselors to the shelters to see just what it is that our people are doing as they work to address this difficult issue.

There are a number of points that I think are very important to note as we consider the issue. The first is that homelessness is a societal problem. It is not a problem unique to veterans. There are threads that run through the homeless population, be they veteran or not. Those are principally the very strong prevelance of mental illness, alcohol abuse and drug abuse, as well as lack of job skills, unemployment, and lack of availability of affordable housing, all of which have a significant effect on that homeless population.

Another item to note is that the numbers of the homeless and the numbers of the homeless who are veterans are very fuzzy. Estimates run from one study in Baltimore of a total universe of only 51 people, which suggested that 50-some percent of that homeless universe were veterans, to a study done by the Human Resources Administration in New York City of some 6,000 people, which suggested that 28 percent were veterans.

One of the things that concerns me about legislation currently pending—in particular, Senator Cranston's bill, S. 477—is that it mandates a very sophisticated and complete gathering of data about the homeless veteran population. I am concerned because, as we spend the time and as we spend the very substantial amounts of money that will be involved in pursuing that data, we're not really addressing the issue of homelessness. Perhaps 30 percent of the homeless may be veterans. The number isn't important. What I would much prefer to do would be to spend our resources on providing services to those working with communities as they provide services to the whole range of people who are homeless, rather than spending a lot of time spinning our wheels, trying to decide whether or not someone is a veteran and do they or do they not have an appropriate type of discharge which would qualify them for certain veterans' benefits.

There is no single homeless population out there. It is an interesting group that differs from community to community, as you visit the homeless shelters in these different areas, and, indeed, within communities it differs from shelter to shelter. For example in New York City the Bellview shelter is primarily reserved for homeless individuals who are over 40 years of age. There are other homeless shelters that are primarily reserved for people who hopefully will shortly be able to reenter the job market. There are other shelters that have a strong substance abuse or a strong alcohol treatment program. In each of these shelters and in each of these communities you really do see a very different set of needs of the people who are resident there at any given moment. I think that, as we try to structure ways to deal with this very severe societal problem, it is important that we recognize that and that we work together and bring together community competence and community awareness of just what that homeless population is in a community and in segments of the community, to try to get significant results.

I am sure you are aware that under a statute recently adopted some funding for the homeless was diverted to the Veterans' Administration, $5 million. Just a week ago, the Veterans' Administration announced that 43 programs proposed by our facilities in the field, all of which do bring together the resources of the community with the health care and mental health care resources of the Veterans' Administration, have been funded and are now about to go forward. As one travels among VA facilities, it is very exciting to see the enthusiasm that our own people have as they look forward to working with the community in which they are located to attempt to address the issue of chronically mentally ill homeless veterans.

I think we probably don't get adequate credit for the amount of outreach that the Veterans' Administration is doing as it deals with the homeless problem. I have been interested, as I visit shelters with members of our veterans' benefits counselor staff, to see that they, indeed, are known to the people in the shelters, oftentimes are known to veterans who are resident in the shelters, because those veterans have attempted to qualify for benefits previously and have dealt with our benefits counselors. I visited a shelter in New York City with Congressman Bill Green recently, and he made special reference to the fact that our benefits counselors are a known commodity in that shelter and that they visit it periodically. The shelter providers, the community providers, know that the Veterans' Administration is there and they know what we can do for someone who comes in, who is homeless, who claims to be a veteran, and who may be entitled to VA benefits.

In addition to that, our regional offices are very active in community coalitions for the homeless. They also are very active in providing training to shelter providers so that the shelter provider realizes that one question to ask an individual who comes in seeking shelter for the evening is "Are you a veteran?" and if so, what are the individuals' service number or other identifiers. The shelter provider can then just pick up the telephone and call the Veterans' Administration regional office and have the veterans' benefits counselor punch into the computer any of these identifiers, which often enable them to respond on the spot as to whether or not this individual is qualified for veterans' benefits or, indeed, if the individual is already in receipt of those benefits.

There are some particular problems as one addresses the issue of homelessness. One that is really key to bear in mind is that so many of the people who are homeless are multi-disadvantaged. They have multiple problems. They suffer from mental illness; they suffer from alcoholism; they are the victim of drug abuse; they are unemployed; they lack job skills; they lack housing—and they lack all of those simultaneously. Because of this multiple disadvantage, the way you can address that problem is complicated many times over.

Something else to consider is the element of free will. You know, we in the Veterans' Administration have many drug and alcohol rehabilitation programs. Before I can help someone, they have to come in the door, they have to want to be helped. So, to the extent that the primary problem that someone has is alcoholism, unless they make the effort, unless they come in, I can't help them. I need them to be working with me before my alcohol treatment program or my drug treatment program can be effective for them.

Something else to consider, and something I have found in my visits to homeless shelters, is that the homeless population is often not a transient population. The homeless who reside in the Bowery in New York have been there for some time, and many of them will be there for some time to come. To tell that individual that there is space available in the Veterans' Administration domiciliary some 250 miles away in Bath, NY doesn't respond to the needs of that individual. He won't go. That individual is a street person, he has been in New York for a long time, and the verdant beauty of Bath, NY, overlooking rolling hills and green trees, simply doesn't have the allure as, quite frankly, it does for me—some days more than others.

[Laughter.]

Another problem in dealing with this issue is the problem of follow up. The people who are homeless oftentimes are referred by shelters, for example, in New York City, to the Manhattan VA Medical Center. It's on 23rd Street, it's conveniently available, and the shelter providers know that they can send people there. But the homeless people, because of the multiple disadvantages from which they suffer, oftentimes do not return for follow-up treatment when they are in a program that requires a series of different visits. As we deal with these problems, understanding that is important.

A final point I would like to make—and I realize I have gone on a bit longer than I anticipated, and I apologize—is that as I have visited shelters with veterans' benefits counselors, one of the things that has been a source of some amazement to me is that many—and by no means do I mean to diminish the problem or to imply that it is the majority—but many of the veterans in those shelters are already in receipt of various veterans' benefits. My experience is purely anecdotal and I understand that. But one man who we met in a shelter here in Washington is receiving $750 a month VA disability. He said he puts that in the bank every month because he wants something to leave to his children when he dies. He resides in a shelter and he eats in soup kitchens. Quite frankly, I am not entirely sure what it is I can do for that gentleman to help him further.

Madam Chairwoman, thank you very much for the opportunity to appear before this subcommittee this morning and to speak about these very important issues.

[The prepared statement of Thomas E. Harvey appears at p. 187.]

Ms. KAPTUR. Thank you very much, Mr. Harvey, for your enlightening testimony. Obviously, you didn't speak with any notes, and that is observed by the Chair. That is something you know personally and you are obviously very involved in the issues, so we appreciate your being here today.

Mr. **Harvey**. Thank you very much.

Ms. **Kaptur**. Mr. Vogel, why don't we go on to your testimony, and then we will open it up for questions.

STATEMENT OF R. J. VOGEL

Mr. **Vogel**. Thank you, Madam Chairwoman, and members of the subcommittee. It is a pleasure to appear before you this morning to discuss the operation of the VA Home Loan Guaranty Program.

I would like to briefly summarize my full statement, highlighting certain program indicators, and with a brief commentary on some proposed legislation.

A period of economic stability has permitted the VA to keep the interest rate on guaranteed loans at between 8½ and 9½ percent this past year. The current rate of 9½ percent has been in effect since April 13.

During calendar year 1986, the VA guaranteed 351,242 loans, which is the highest since 1979. Almost 74 percent of those loans were made with no down payment.

Defaults are stable, but at relatively high levels, with a correspondingly high number of foreclosures and claims paid. In an effort to cut the high claims costs caused by delay in foreclosure, a procedure has been put in effect to establish a cut-off date to limit accrual of interest and additional charges. Procedures consistent with servicing standards set for conventional loans are now in place. We will soon require lenders to report 90-day delinquencies to credit reporting agencies.

In the area of credit underwriting, we recently revised our standards to provide, on a regional basis, guidelines for the minimum residual income needed to qualify for a loan. We also instituted the use of a debt-to-income ratio to assess the risk of a loan. Riskier loans require additional review and justification if they are to be approved. While some have expressed the belief that the new underwriting standards are unduly harsh, most program participants have generally been supportive of the new guidelines. The guidelines were intended to reduce the incidence of veterans being placed in homes they could not afford. Steps are being taken to assure that qualified veterans have every opportunity to use their home loan guaranty benefits.

One other change was recently made to the credit standards, as to the value of military benefits and the difference they can make when calculating an applicant's residual income.

The quality of appraisals has been a focus of concern. We have taken important actions to improve our appraisal system and we are committed to continuing efforts to assure that the appraisal system is effective, viable, and adequately protected from inappropriate appraisals and those who perform them. The VA is part of an interagency task force to look into the development of an appraiser certification and review system.

We are in support of the recently introduced legislation which would give the VA the authority to establish a direct appraisal system which will provide more timely service to veterans.

Madam Chairwoman, let me say a few words about property management. The Deficit Reduction Act requires that at least 25 percent of our loans be sold for cash. Cash sales for fiscal year 1987 to date—that is, through March—have been at 32.9 percent.

After a significant inventory reduction in fiscal year 1985, the nationwide property inventory experienced a net increase of nearly 2,000 properties in fiscal year 1986. Property sales remained at nearly the same high level in fiscal year 1986—only 2 percent below the fiscal year 1985 mark—but property acqiusitions increased almost 18 percent over fiscal year 1985 acquisitions.

Our property sales problems are now principally located in the "energy belt". For example, if three regional offices—Denver, Muskogee and Houston—had just been able to stay even by selling the same number of properties that they acquired during fiscal year 1986, the sales results of the remaining 46 regional offices would have given VA a net inventory reduction of 3,677 properties. Those three stations now account for nearly one-third of the VA's onhand property inventory.

In an effort to overcome these adverse market conditions in the Houston area, our regional office is working closely with an advisory council of private sector real estate brokers. Substantial price reductions are being made, and more public advertising is being done. Additional personnel resources and contract money have been made available for property disposition, and we have begun to see a higher monthly property sales and purchase offers in the Houston office.

We project a gradual decline in property inventory over the next few fiscal years. Our regional offices have been successful in selling properties—over 56,000 in the last 2 years—and in reducing the average time properties are held from nearly 11 months to just under 9 months in fiscal year 1986, to 8.2 months in fiscal year 1987 to date. The problem continues to be that the level of new acquisitions has been significantly higher than anticipated, especially in areas most affected by the severe economic downturn in the energy industry.

We continue to work with the VA's Inspector General on their investigations into invoice padding on manufactured homes. To date, 12 manufacturers have been suspended and nearly $1.6 million has been collected in civil and criminal penalties.

Madam Chairwoman, you asked for our specific comments on the legislative agenda and budgetary items relating to the Loan Guaranty Program.

The first item was a proposal to require the underwriting of VA loans which are assumed. Our initial review brings up both pros and cons. The need for underwriting could increase the cost of the sale and increase the time taken to consummate the sale. However, a review of the credit-worthiness of a person assuming a VA loan would, in fact, reduce the possibilities of the loan being assumed by an unqualified purchaser.

The second item is a 3-year extension of the requirement to collect a 1 percent fee on VA guaranteed loans. While we favor extension of the fee, we believe it should be made permanent and should be increased to 2½ percent. An increase in the fee is necessary to offset losses sustained by the Government due to the foreclosure and the payment of claims on guaranteed loans.

The third item is an increase in the maximum guaranty amount to $30,000. We believe the present guaranty amount is sufficient to support a no downpayment loan of up to $110,000.

The proposal to require a downpayment on manufactured home loans was considered. We believe that the downpayment requirement would seriously diminish the viability of this program which particularly serves veterans at the lower end of the economic scale.

The last item on the legislative agenda would permit veterans who have been transferred and no longer occupy the home to obtain interest rate reduction refinancing loans. This proposal would benefit veterans, especially active duty military and service personnel, as Congressman Leath has articulated. We would not object to that proposal if it was limited to a one-time use of active duty, Foreign Service, and military personnel.

We held a sale of vendee loans without recourse on April 14. We received only four offers. We offered for sale $84 million worth of loans. The offers were such that we rejected all of them. We are committed, however, to exploring new marketing for those loans and would like to sell such loans without recourse, if we can obtain a reasonable price, to obviate future losses.

The fiscal year 1988 budget submission also contains a proposal to sell without recourse $900 million of VA's loan portfolio—$300 million each fiscal year in 1988, 1989, and 1990. The receipts from these loan sales are projected to be $210 million for each fiscal year. The $630 million in cash over the next 3 years would significantly bolster the Revolving Fund. The cash flow from these poor quality loans is uncertain and could vary considerably in the future because near two-thirds of the loans slated for sale are in a state of chronic delinquency.

Madam Chairwoman, that concludes my statement. I would be pleased to answer any questions that you or any members of the subcommittee may have.

[The prepared statement of R. J. Vogel appears at p. 193.]

Ms. KAPTUR. Thank you very much, Mr. Vogel, for your very clear testimony.

We are going to proceed with questioning now. I wanted to begin with Mr. Harvey, if I might.

In your testimony you supported the idea in the Senate bill, S. 477, that carefully selected property acquired through foreclosures of VA-guaranteed loans be put to use in the effort to assist homeless veterans. You further state that a carefully supervised pilot demonstration could be implemented, since this could be done without the benefit of legislation.

Are you considering some sort of administrative program in order to move forward on that?

Mr. HARVEY. We are, and I believe this can also be done without a significant effort. One of the concerns about such a program is that, to the extent we liquidate those properties other than at full value, we are depleting the Revolving Fund which enables us to maintain this loan guaranty program. Several properties in our inventory, frankly, have minimal value. We could transfer those properties for this type of a program without a great loss to the

Loan Guaranty Revolving Fund, and I think that would be a worthwhile thing to attempt.

One of the things I also did mention in that testimony which concerns me, is that once we transfer that property, I would hope any legislation that would enable us to transfer the property without recourse and without the requirement that we return some time later to monitor the property and to assure that, in fact, a veteran is resident in the property. That would be very difficult for us to do and I think it would be a very poor dilution of our resources.

Ms. **Kaptur**. You have a list over there at the VA of about 57 properties?

Mr. **Harvey**. We do.

Ms. **Kaptur**. There was one list that could be used for this purpose. What condition are those properties in and how long have they been held by the VA?

Mr. **Harvey**. I think probably Mr. Vogel could respond to that better than I can.

Mr. **Vogel**. Madam Chairwoman, that was a snapshot at a point in time. We asked our regional office directors to identify properties in an area where there are homeless people and the community resources that they would find there to cause them to gravitate into that particular area. The number could be 55 tomorrow and 150 the next day. The properties that we asked them to look at were those that had been in inventory and available for sale for 12 months or more, and that virtually had little value—in other words, we were paying taxes, insurance and maintenance and repairing them after vandalization.

So essentially they would be properties that are more of a liability than an asset. Some of them are not in very good condition, that is true. But if they are in good condition, we would expect to sell them, because the Revolving Fund requires an infusion of cash from sales so that we can pay claims. So these are not the nicest properties, very frankly; but they are in center city areas and are available.

Mr. **Harvey**. Madam Chairwoman, may I make a follow-up point on that?

Ms. **Kaptur**. Yes, please.

Mr. **Harvey**. As you noticed in the testimony of the Vietnam Veterans of America Post 35, which is from Toledo, what they recommended was their acquirnig properties just such as Mr. Vogel made reference to, and incorporating in the rehabilitation of those properties involvement of the community and training of veterans to work on the rehabilitation of those properties, hopefully providing the veteran with a skill that would be marketable, as well as a residence in which to reside. So, even though these properties may not be the stars in our real estate crown, there is a positive benefit which can be derived by the veterans who would be working to rehab the properties and then residing in them.

Ms. **Kaptur**. I know that one of the questions that I submitted to the VA for reply dealt with an inventory that we hold in our Toledo city housing office, asking how long have these properties been on the books. Frankly, we would like to see them improved. I know Mr. Davis has some of the same concerns from Chicago. So we are happy to see you moving in that direction.

Could I ask either of you gentlemen if there are any vacant domiciliary beds today which could be used for the homeless?

Mr. **Harvey**. Yes, there are a substantial number of vacant domiciliary beds throughout our system. I can't tell you the exact number, and I would certainly be pleased to provide that for the record. Again, that would be sort of a snapshot-type of number.

[Subsequently, the Veterans' Administration furnished the following information:]

As of March 31, 1987, there were 6, 920 operating domiciliary beds. Of these, 700 were unencumbered and available for assignment to eligible veterans.

Again, as I mentioned earlier, for a veteran to avail himself of the opportunity that that represents—for example, the domiciliary in Bath, NY—he has to be willing to go there. We will provide him with transportation, but he has to be willing to stay in that area. For many of the homeless, they resist the confinement that that represents. They would prefer to be on the Bowery, on the streets of Manhattan, to have some of the freedom that that represents, rather than to relinquish that freedom as they move into the domiciliary for care.

In addition to that, let me also mention we have about 12,000 half-way house beds that our Department of Medicine and Surgery's Social Work Service maintains throughout the country, so we do have various half-way house type facilities that can provide veterans with something less than acute hospitalization for psychiatric disorders, but something more than simply being told that their time is up and they're out the front door and out on the streets. So we are very conscious of the need to respond to that group.

Ms. **Kaptur**. Could you go into a little more detail on some of the demonstration programs that you have underway?

Mr. **Harvey**. Once we were provided with the $5 million funding for those demonstration programs, Dr. Errara in our Department of Medicine and Surgery's Mental Health and Behavioral Sciences Service and our Social Work Service circulated a request for proposals to the Veterans' Administration hospitals throughout our system, asking them if they perceive a particular problem of homeless veterans in their area and, in particular, a problem of homeless veterans who suffer from chronic mental illness, to submit a proposal to the Veterans' Administration that we could fund.

One of the requirements in submitting that proposal was that the proposal involve the other community care providers in that community, whatever that may be. So each of the 43 programs which were deemed worthy of funding by VA Central Office on a merit review basis is unique, because each of the programs will enlist community support to their area.

Essentially, though, the common thread running between them is the VA's commitment to provide health care and mental health assessment of the veterans, and its effort to provide a half-way house type of accommodation to these veterans.

Ms. **Kaptur**. I assume you have some in each region?

Mr. **Harvey**. Yes, and because you are from Ohio, you may be interested that we have funded three in the State of Ohio, one in Cleveland, one in Cincinnati, and one in Dayton.

Ms. KAPTUR. I know that the Director of the Cleveland VA Regional Office was here earlier, Mr. Jack Ross. I don't know if he's still here or not. But we welcome you. We're glad to see you here this morning.

I wanted to say that I will submit some additional questions for the record, but I wanted to give my colleagues an opportunity to comment or question.

Mr. Burton.

Mr. BURTON. Thank you, Madam Chairman.

It has been brought to my attention that congratulations are in order regarding Mr. Vogel. I hear that you just won an award from the Department of the Treasury for distinction in credit management and debt collection. It was presented by the Secretary of the Treasury and says that your efforts resulted in collecting more than $8 million in 1985 in IRS refund offsets. I think that is very good and I think you should be publicly commended.

Mr. VOGEL. Thank you, Mr. Burton. You're very gracious.

Mr. BURTON. I will do that before I start hammering on you.

[Laughter.]

You said across the country, Mr. Harvey, there are about 57 properties——

Mr. HARVEY. There are 57 properties within the VA inventory of foreclosed homes that we believe could be made available to a program such as this program to provide housing to homeless veterans.

Mr. BURTON. In Indianapolis, and I am sure in Ohio and Illinois and elsewhere, there are numerous VA houses in the process of foreclosure. Do you have any idea what that number might be?

Mr. HARVEY. We have about 21,000 properties in inventory across the country, with a significant concentration of those, about 4,800, in Houston, and certain other areas that have been particularly hard hit by such things as the oil economy collapse.

Mr. BURTON. Are they being disposed of in a propitious manner? I mean, are people buying those to live in, or are investors investing in those? What is their disposition?

Mr. HARVEY. We are attempting to dispose of them in a responsible manner, to realize the most dollars possible, which then go into the VA Home Loan Guaranty Revolving Fund.

Mr. BURTON. Are you running into any difficulty in disposing of those?

Mr. HARVEY. Yes.

Mr. BURTON. Why is that?

Mr. HARVEY. Well, it's because in a place such as Houston, where property values have declined precipitously over the past several years, the market is just very, very soft.

Mr. BURTON. Are real estate investors, who used to buy these houses, more reluctant now to invest in them than they were in the past?

Mr. HARVEY. I would assume they would be, just because of that market condition. But let me ask Mr. Vogel, if I may, to respond.

Mr. BURTON. In addition to market conditions, I know there were some disincentives in I think the tax law last year and some of the other legislation we passed. I was just curious to see if that has had an adverse impact on the disposal of these houses.

Mr. Vogel. We haven't detected, Mr. Burton, any decrease in interest on the part of investors, notwithstanding the fact that the interest rate deduction may be made. When we auction properties—we have resorted to that in some areas—the first auctions in an area typically bring out a home buyer. They want to put their family in the house. After that, especially in the Houston area, we see more investors present to buy those properties. So I think there is still a healthy interest.

The point that Mr. Harvey made is well taken. However, there is a glut of houses on the market in the Greater Houston area. In just this year, I understand that HUD and Fannie Mae will attempt to market 5,000 properties. Those are just in their inventory.

Mr. Burton. I know this is on a little different subject, but I had a fellow come to me in Indianapolis this week. We have a number of these houses that have been boarded up and are sitting there deteriorating. After they sit there very long, vandals get in and destroy them, even burn them to the ground. That certainly isn't going to do anybody any good.

This fellow told me that there had been disincentives for investment. He, in the past, had bought homes which he had rented out to the low income people, many welfare recipients and AFDC benefit recipients, and he said they are coming to him asking for housing now and, because of the disincentives from the tax law and other legislation that's been passed, he is no longer in a position to make those kinds of capital outlays to buy these houses; therefore, it has a pyramiding effect, I suppose, because the people when he normally would rent to aren't finding the kind of housing they can afford, as they did in the past.

I just wondered if you had had any experience with that and, if you have, what do you think we ought to be doing in the Congress to solve that problem.

Mr. Vogel. I'm not sure what would be provided in legislation which would change the phenomenon we see.

My staff tells me that there are about 776 properties in inventory in the State of Indiana, out of the Indianapolis regional office. They have sold 333 so far this year. Last year we sold over 1,000 and acquired about 860, so we're actually selling more than we're taking in now. We have seen a turn there, we hope.

I guess I tend to concentrate more on the "energy belt" offices, where we have tried to divert as much resources as we could. We have a significant inventory in Texas, in Los Angeles, Denver, Muskogee, all those places. I think if prices came back on domestic oil, it would solve most of our problems. We sold 56,000 properties in the last 2 years. As to our marketing efforts, we have increased advertising, we have worked with boards of realtors, we've had private industry groups consult with us and assist us in marketing.

I am really not in a position to comment on the tax laws.

Mr. Burton. Well, I won't belabor this. I understand we have on one of the other panels some realtors and maybe they could address this problem.

But the homeless veteran and the other homeless people we have in the country, many of whom are welfare recipients, aren't finding any housing that they can afford, outside of a slum. If we have surplus housing that is sitting around idle, if we could create some kind of an incentive for investors to invest, so that they could provide low-cost housing for these people, I think it would be beneficial.

Mr. VOGEL. I might mention, Mr. Burton, that at the present time in Philadelphia—I just talked to the regional office director there, Bob Carey, the other day. They are in negotiations, preliminary negotiations, with the City of Philadelphia to market between 50 and 100 homes that the VA has in inventory, which would be conveyed to the city to shelter people—not just the homeless who need shelter, but other people who are in need of housing—for proper consideration, they'll get the right of first refusal, I think, on a number of properties we are prepared to convey.

Under urban homesteading and other programs we have targeted properties and have worked with local, not only governmental entities but nongovernmental organizations. We can convey a lot of these properties for small or no consideration.

Mr. BURTON. I have one last question, Madam Chairman.

On April 9, Mr. Jack Radtke, President of Urban Revitalization of America, Inc., testified that his company was interested in acquiring thousands of VA-foreclosed properties and that he was meeting with the VA that afternoon.

Can you tell me the result of that meeting?

Mr. VOGEL. I'm sorry, Mr. Burton, I couldn't. Perhaps a member of my staff could address that.

Mr. Pedigo is the Director of the Loan Guaranty Service. He may be able to respond to that, Mr. Burton.

Ms. KAPTUR. Could you please use the microphone. Right up here, sir. And please identify yourself officially for the record.

Mr. PEDIGO. Keith Pedigo, Director of the Loan Guaranty Service of the Veterans' Administration.

We did meet with Mr. Radtke and we discussed his proposal. We explained to him that, historically, we have cooperated with organizations whose desire is to purchase acquired properties in order to rehabilitate them and make them available to the underprivileged and to the communities, and that we would be willing to discuss his proposal if he could submit a more detailed plan as to what he proposed to do.

Mr. BURTON. So you're waiting on that plan now?

Mr. PEDIGO. Yes. We plan to have another discussion with Mr. Radtke and his staff.

Ms. KAPTUR. Thank you, Mr. Burton.

Mr. Davis.

Mr. DAVIS. Mr. Pedigo, before you leave, could I just follow up with a question. How do you treat rehabilitation of deteriorating properties now? Do you contract for minimal stabilization or rehabilitation? How do you handle that now?

Mr. PEDIGO. When a property is conveyed to us by a lending institution after foreclosure, we immediately have a management broker go out and do a complete assessment on the condition of that property. Based on that report, we make a determination as to whether or not it would be cost effective for the VA to engage in an extensive repair program. In some instances, we do extensively rehab our properties in order to bring them up to a condition, on a par, with other properties in the neighborhood. In many other instances, we will sell it "as is" because there is no opportunity to recover the cost of repairs.

In the last 2 to 3 years, I must admit that we have done fewer repair programs than we have historically done because of the large inventory of properties we've had.

Mr. DAVIS. You didn't have the time? Is it a matter of time or inclination?

Mr. PEDIGO. It's a labor-intensive operation and—

Mr. DAVIS. Well, how do you handle it? Do you contract for it, or does the management broker contract for a firm to come in and do it?

Mr. PEDIGO. We contract with private contractors to do the repairs. We utilize the services of our management broker who prepares the specifications for the contractor.

Mr. DAVIS. And then he, in turn, gets the contractor, or do you do it individually, by regional office or whatever?

Mr. PEDIGO. He provides us with a list of contractors who have expressed an interest in doing repair work for us in his locality. Then we select the contractors that we are going to have submit bids. When the bids are received, we review them. Our primary criterion is to select the contractor who submits the lowest bid.

Mr. DAVIS. How localized is that procedure? Does that get into a regional office or a subregional office? Where are those decisions made?

Mr. PEDIGO. Those decisions are made at the regional office.

Mr. DAVIS. So you've got a wide dispersal of decision making. Okay.

The reason I ask, you always relate everything to personal experience, Madam Chairman. I was astonished—and this is my fault, I suppose, because I have walked by it for 3 years now. I live in a small town in a fairly substantial residential neighborhood. About two blocks from my house is property that sits right on a lot overlooking a wide creek, in a beautiful pastoral wooded setting, probably 3,000 square feet. The guy moved out and left and went to Colorado about 3 years ago. I always assumed it was an FHA house until I bothered, after the April 9 hearing, to walk up and get the number. It's a VA house.

The pipes broke and froze 2 years ago. The house is now boarded up because the vandals have gotten to it. So I called a broker. I didn't identify myself. I asked a broker, in the small town of Lockport, which is in the Chicago region, what the price was. They said $43,000 for this house.

Now, that sounds like a small amount of money for what I have just described, and I'm not a contractor, but just from looking at it, the best thing you could do would be to burn it down and start all over again from the ground up. The house has been allowed to deteriorate dramatically over the last 3 years.

I was just curious as to how you judge what is rehabilitative and what isn't. I mean, we're not talking here about an innercity dwelling. How are those decisions made? Maybe they're made too far into the region. Maybe those decisions should be made on a subregion basis.

Mr. PEDIGO. We don't really have subregions. For example, in Illinois we have one regional office. We don't have any subregional offices. That office is in Chicago.

Mr. DAVIS. So you're really at the mercy of local folks in the real estate or management broker office, who will tell you—

Mr. PEDIGO. Well, we retain the services of a local management broker. However, it is VA policy to personally staff inspect as many properties as possible.

Mr. DAVIS. How often does that occur?

Mr. PEDIGO. It depends on the workload at the various regional offices. The instructions indicate that if any substantial repair programs are to be undertaken, a staff visit must be made.

In other situations, we encourage them, depending on their personnel resources, to get out and see every property.

Mr. DAVIS. How does something I just described to you, two blocks from my house, occur?

Mr. PEDIGO. Well, I can't really say. There could have been some legal problems in gaining possession.

Mr. DAVIS. Perhaps.

Mr. PEDIGO. There might have been an extended redemption period involved in that situation. We generally try to take possession of a property as quickly as possible under the local laws. In Illinois, it's a judicial foreclosure process—

Mr. DAVIS. Yes, it is.

Mr. PEDIGO [Conitnuing]. And it is one of the most burdensome foreclosure processes in the country.

Mr. DAVIS. It's getting better. We've got it down to 6 months.

Mr. PEDIGO. I would be quite embarrassed, because I'm the former loan guaranty officer in Chicago, to find out that we had let a property go for 3 years. So I would be very interested in the—

Mr. DAVIS. The former owner, by the way, is a Federal employee—

[Laughter.]

I just can't believe things like that happen.

Mr. BURTON. Would the gentleman yield on that point?

Mr. DAVIS. Certainly, Dan.

Mr. BURTON. This is not an isolated case.

Mr. DAVIS. No, it can't be.

Mr. BURTON. Before I came to Congress I was a realtor and an insurance man, as well as being in the State legislature in Indiana. I handled for the Marion County welfare department in Indianapolis a number of properties that they had, where people were going into homes. After I had worked in that a while, I had occasion to get to know people who dealt with VA and FHA houses and foreclosures. Being a realtor, you know, we talked with each other and had a chance to get the know the problems each one of us faced.

There were numerous houses, VA and FHA houses, which were going through the foreclosure process, and for one reason or another, they were boarded up and literally years would go by that they would be there. Pipes would freeze, the floors would deteriorate, the ceilings would fall in. The vandals would get in and strip the copper and the metal and the plumbing facilities out of the houses. They became nothing but shells. They would sit there, being a blight on the landscape for some time, and ultimately there would be a demolition order issued by the city to tear them down.

It seems to me now, and it seemed to me then—this has been going on for a period of 10 or 15 years or maybe longer, I'm older than I look—that there ought to be a procedure to expedite sale as rapidly as possile and to try to get these houses back into circulation as quickly as possible.

Particularly in view of the fact that this fellow last week came to me and said, "Hey, you know, I have people who are welfare recipients and who are lower income people who are really dying to get livable housing. I want to provide it. I've been doing it for 20-25 years." The guy's name is Golden, Harry Golden. I know he provides very good housing for people in Indianapolis at very low cost and he has good clients. He can't get housing any more because of disincentives, the tax law and other things.

It seems to me that we, as a Government, ought to be able to provide some mechanism to get this housing back into circulation quickly, either for rentals or for resale or for something useful, rather than having it deteriorate. It's not doing anybody any good if that happens.

So I don't know if you've looked at this, and Mr. Davis' was a perfect example, just two blocks from his home. But it seems to me, since this has been going on for a long time, maybe the VA, the FHA and the other agencies could get together and try to come up with a new procedure or a streamlined process to expedite sales for foreclosed properties.

Mr. **Pedigo**. Your recommendation is well taken. I know that from time to time we have properties come into our inventory that fall between the cracks and we may not get them listed for sale as rapidly as we should. But I would hope, and I do believe, that the overwhelming majority of the properties that we acquire are properly secured as soon as we acquire them and are marketed as soon as legally possible.

Mr. **Burton**. I thank the gentleman for yielding.

[The prepared statement of Hon. Dan Burton appears at p. 245.]

Ms. **Kaptur**. Mr. Pedigo, before you leave—Mr. Davis, are you finished?

Mr. **Davis**. I had a couple more, if I might, Madam Chairman.

Ms. **Kaptur**. All right.

Mr. **Davis**. Mr. Burton is absolutely right about the Tax "Deform" Act of 1986. It had a lot of real problems and this is one. I don't think anybody expected that when you stepped on the balloon you were going to throw a lot of low-income people out of the housing market, simply because there's a whole market out there of buying properties, renovating properties and selling them, so that the tax incentives paid for the properties themselves. It's an incredible thing. The answer, I think, is we should put it back in, try tinkering with the Code again, if Dan Rostenkowski will let us do it, which he probably won't.

Mr. Vogel, just one question. You talked about your repurchase loan sale, where you put your first offering on the market at $84 million, got two bids and rejected both. Why?

Mr. **Vogel**. We got four bids.

Mr. **Davis**. What was the character of the bids that made them unacceptable?

Mr. **Vogel**. They were so low that they were just not acceptable.

Mr. **Davis**. Was that because of the nature of the properties?

Mr. **Vogel**. No, we were selling loans, not properties.

Mr. **Davis**. Okay. I understand.

Mr. **Vogel**. The loans were current loans, with good payment histories, available for examination. We advertised extensively. We put an ad in the Wall Street Journal and we got a lot of interest. But of the four bids, two were described as corporation bids. They appeared to be almost an individual bid. Two other lots of offers were made by a significant mortgage banking firm. They ranged from 15 percent of value, 15 percent of par, to a high of 67 percent of par. These are income-producing to us as well, of course, and we just made the determination that they weren't acceptable bids. We are continuing to pursue this, however. Maybe with some consultation from others we will find a way to market them.

Mr. **Davis**. One other question.

I note in your testimony you say that you would have still maintained a declination of 20 percent of inventory had it not been for the energy crisis, and you actually show an increase overall.

What have you done to isolate those markets and step up or increase your activities related to merchandising and marketing the properties so that the turnover can be greater?

Mr. **Vogel**. We have accelerated the review of the pricing, very frankly. When we put them on the market, we have reviewed more frequently the price and drop it if we determine it's warranted. We have dealt very successfully, I might add, with advisory groups from the boards of realtors and the mortgage banking community generally, mostly people involved in real estate. There will be a panel here from Houston, TX that assisted. We have increased advertising. We have resorted—I use the word "resorted" advisedly—to auctions in areas. We tried to speed up getting the house ready to be put on the market, acquiring title and putting it on the market. We have reduced the holding time by some amount. All those things together, we have actually sold 56,000 in a 2-year period. Unfortunately, what we take in is more than we're getting out.

We have seen some improvement in our performance in the upper Midwest area, which has been, particularly in the early Eighties, difficult to deal with—Chicago, Cleveland, Indianapolis, those regional offices.

You mentioned the story of the home in your neighborhood. I was remembering that about 8 or 9 months ago, maybe a little longer than that, the end of last spring, at the Chicago regional office, the property management personnel were responsible for approximately 100 properties per person. That is too many properties for one technician to handle. You can't look at them and you can't deal with brokers. As Mr. Pedigo said, they fall through the cracks and we're saddened to hear of that. Periodically we get a notice that we're going to pay for demolition on a property that the last time we looked at it it looked okay.

When loan originations, the front end of the business, are so great, the regional office director or loan guaranty officer has to make a determination. Sometimes they'll say we have veterans looking for a loan, but we've got this other side of the business, which is property management. Where do we put our resources if it comes down to those kind of judgments? It's in the origination end, to put veterans in homes, and something has to give.

We're pretty proud of what we've done, considering what we've been up against.

Mr. DAVIS. Thank you.

Madam Chairman, thank you very much.

Ms. KAPTUR. Thank you.

Mr. Burton?

Mr. BURTON. Very briefly, you indicated that it was averaging 100 homes per property manager up there?

Mr. VOGEL. At that point in time. We're down to—

Mr. BURTON. Over what period of time were these 100 houses acquired?

You see, the point I was trying to make, as a real estate person, is that sometimes because of the slowness of the process you get these backlogs. It just seems to me, if there were incentives for people to invest in these properties, you would have a more rapid disposition of them. When the Government creates disincentives, then if an individual person can't buy them, they sit there, because the investor says he's not going to make that kind of capital outlay and investment, if he's not going to get his money back or get a good return on his investment. He is not going to do it for nothing and he is certainly not going to lose money. So there is no real interest, in a person who has the capital, to invest and rehabilitate those homes and put them out for rent at low rents. So you get this backlog because of governmental red tape and maybe improper legislation.

It seems to me that the various agencies, including the VA, FHA and others, ought to be saying to us in Congress, look, we're having this backlog and it's as a result of Government red tape, because there is no incentive for investors to make that investment. What we ought to be doing is providing a mechanism for the private sector, the free enterprise system, to make this capital investment which will, in turn, benefit the homeless and the underprivileged who can't get low rent housing.

What we're doing is exactly the opposite. We let this backlog build up, these houses deteriorate, we tear them down, and the people out there on the streets who want to get housing, who are getting welfare benefits, who could afford to pay low rents, don't have any place to go. The new housing which replaces the old is beyond their ability to rent. So it seems to me all the agencies of Government ought to be saying to us in Congress, "Look, you've got to provide incentives." If we can't do it for individuals, and the individual can't afford to buy a home, then we certainly ought to say to the entrepreneur, who has the capital to invest, "Here's a way you can invest, rehabilitate these houses, provide low-income housing, and make a buck yourself." If you do that, we won't have this backlog. You won't have this build-up, and you certainly won't have one inspector, on property manager, taking care of 100 houses, because if it's profitable, in our system, they aren't going to sit around. Businessmen are going to buy them, invest in them, and they're going to put them out for rent, and everybody is going to be happy. Everybody gains. The longer we wait and let these things build up, the more risk there is to everybody losing.

Thank you.

Ms. KAPTUR. Thank you very much.

I know we have submitted questions to both of you gentlemen and to the VA. A couple of weeks ago we had excellent witnesses here, I thought, who represented a variety of interests on the repair and rehabilitation side. If there is one message that came through, it was that they were most anxious to work with the Veterans' Administration, certainly with Mr. Pedigo, who I understand is new but has lots of enthusiasm and experience.

I sat up here and listened to the witnesses a couple of weeks ago and thought we should rename the program, from the VA Home Loan Guaranty Program to the VA Home Loan Guaranty and Repair Program, or Rehabilitation Program.

My basic question to you, Mr. Vogel, do you feel you have enough authority, with this question of turnover and of moving that inventory, does it get enough attention within the agency, or is there some way we could make your life easier by stressing the importance of this aspect of the program perhaps more than presently exists in legislation now?

Mr. VOGEL. It would appear that our largest challenge is in areas where every participant—whether it's the Veterans' Administration or Farmers Home or mortgage banking firms—is up against it. We simply have turned the corner on property sales, and the average price per sale is up, too, in Indianapolis and other parts of the country. We are still plagued in Oklahoma, Louisiana, Texas, Colorado, in energy-related areas. If those things turn around, I think we'll be all right.

We have been mightily challenged in the last year or two to manage that program. I am personally proud of what the regional offices have done. They had a tremendous year in loan volume. The directors diverted resources into the Loan Guarnaty Program to the extent they could.

We are also responsible for and very proud of our role in the compensation and pension and the GI bill for education programs, rehabilitation and insurance. So all those things compete for a finite amount of resources.

Ms. KAPTUR. And probably attention within the agency.

Mr. VOGEL. Yes.

I would like to point something out. Two weeks ago I got on the telephone with all the regional office directors. They have been able, through good management, to have more full-time personnel devoted to all of our program areas over the FTE mark. They're down still in the dollar amount. I told them not to be concerned. What it tells me is that they are using part-time, using temporaries, using intermittents, using a lot of contract moneys. All those things together, they're actually about 130 FTEE over our so-called mark that was in the dollar amount. I'm proud of that. They have done it with virtually no direction from me.

Ms. KAPTUR. Mr. Vogel, somewhat following on Mr. Davis' concern about at what level decisions are made, from an administrative standpoint—and Mr. Pedigo said he was in charge of all of Illinois at one point in his career. In the Home Loan Guaranty Program, as to the rehabilitation aspect and the repair aspect, are there separate people that work on that, or is it done in the way you say, by part-time contracting and by working with others, as sort of a band aid approach?

Mr. VOGEL. There are people devoted to the property management area in the regional office. We have loan guaranty operations in 49 of our 58 regional offices. Some of the more sparsely populated States have loan guaranty service provided by an adjoining regional office. For instance, the St. Paul office takes care of the Dakotas as well.

Those decisions as to how much to invest in repairs and rehabilitation of properties to get them on the market are made at the local level. Our only concern is that we put in the appropriate amount. It's a judgment call on what we need to do to get the house ready to market it. Clearly, the more money that is put into the property, beyond that which may be judged to be reasonable, the fewer assets we have available in the Loan Guaranty Revolving Fund. That's where the funds come from to get those properties ready.

Ms. KAPTUR. But it is the property managers who make these decisions for the most part, then?

Mr. VOGEL. That's right.

Ms. KAPTUR. How many of those property managers exist around the country?

Mr. VOGEL. I would have to provide that for the record. I don't know whether Mr. Pedigo has that number or not.

Ms. KAPTUR. Just in the area that he originally came from, how many were there in Illinois? You had responsibility for the State of Illinois, Mr. Pedigo, is that right?

Mr. PEDIGO. Madam Chairwoman, we had approximately 28 employees involved in our property management operation in Chicago.

Ms. KAPTUR. And that covered the entire State of Illinois?

Mr. PEDIGO. That covered the State of Illinois. These were actual VA employees. We had numerous management brokers who had individual territories throughout the State. They were responsible for front-line maintenance and management duties and for reporting to us on those properties no less often than once a month.

Ms. KAPTUR. Thank you very much.

I wanted to ask Mr. Vogel if your proposal to sell, without recourse, $900 million worth of the VA's loan portfolio—and you're estimating you only receive $630 million in cash—wouldn't it be more prudent, from a management standpoint, to maximize your return on your assets by determining whether or not the sale prices of these assets would be so low as to preclude any real impact on the deficit?

You say you have turned the corner, except in the energy belt. But you're taking some pretty heavy losses there, aren't you?

Mr. VOGEL. We were really looking forward to the no recourse loan sale, which we held on the 14th of this month, because they were good loans. They were current loans. These others that will be offered are not, in fact, current. We were hoping for a good experience there and to learn from that, about what this $900 million, $300 million per year, may yield. We've got them pegged at 70 percent of par. I don't know what they're worth now, but we're certainly going to attempt to market them. We will continue to consult with people from the industry to find out whether we missed something in marketing, or whether there's a way to package those that are available for sale.

The thought is—and I think it's a good one—is that cash up front is better than the flow of receipts from interest earings.

Ms. Kaptur. From some information we have received from the National Association of Realtors, it says that that particular sale resulted in light bidding, low prices, and the Administrator decided to not accept any bids. Is that true?

Mr. Vogel. That's right. We accepted no bids. We received four and rejected all four.

Ms. Kaptur. A witness later this morning will be recommending that the Veterans' Administration work with Ginnie Mae to finance a program where restructured loans may be included in pools for certificates, regardless of their age, and the acceptance of this type of program would give additional incentive to the lending community to rework delinquent VA mortgages, since they would now have a place where the loans could be financed and resold.

Have you ever heard of this proposal and do you have any reaction to it at all, Mr. Vogel?

Mr. Vogel. I just learned of it the other day, Madam Chairwoman. I am not in a position now to comment, but we would be pleased to do so for the record.

Ms. Kaptur. All right. Thank you.

[Subsequently the Veterans' Administration furnished the following information:]

> Modification or restructuring of delinquent loans may be a useful tool for preventing foreclosures. VA recognizes this and provides loan holders with considerable flexibility (38 CFR 36.4314) when a change in loan terms will assist a veteran borrower. While we encourage holders to provide such assistance, we understand secondary market requirements may restrict their ability to dispose of restructured loans. VA is not, however, involved in the establishment of secondary market requirements. Accordingly, this recommendation should be considered directly by GNMA. VA would be pleased to furnish GNMA with any available information which might be of use in its evaluation; however, we are not authorized to provide financing for secondary market activities.

Ms. Kaptur. Do any other members have any questions? We will have several questions for the record.

I really want to thank both of you gentlemen. I think you represent the kind of talent that exists in the Federal Government that is often not recognized. I want to commend Mr. Burton for especially pointing out Mr. Vogel's fine performance. I thank you so very much.

Mr. Harvey. Thank you very much for this opportunity to appear before the subcommittee.

Mr. Vogel. Thank you.

Ms. Kaptur. We would like next to call Mr. Allen Holton, Executive Vice President, American Mortgage Company, Houston, TX, and Miss Loraine Allison, Chairperson of the Advisory Council to VA Property Disposition in Houston, TX.

We certainly have heard a lot about the energy belt these last few weeks, and so we are most appreciative of you coming such a long distance to be with us this morning. We have heard many good things about both of you. We would ask if the witnesses would be kind enough to restrict their comments to approximately five minutes, and then we will open it up for questions.

Mr. Holton.

STATEMENTS OF JAKE KAMIN, CHAIRMAN, AMERICAN MORTGAGE COMPANY, PRESENTED BY ALLEN W. HOLTON, EXECUTIVE VICE PRESIDENT FOR ADMINISTRATIVE OPERATIONS, AMERICAN MORTGAGE COMPANY; AND LORAINE ALLISON, CHAIR, HOUSTON ADVISORY COUNCIL TO VETERANS' ADMINISTRATION PROPERTY DISPOSITION; ACCOMPANIED BY GLORIA LEDER

STATEMENT OF JAKE KAMIN

Mr. Holton. Madam Chairwoman and members of the subcommittee, my name is Allen W. Holton. I am Executive Vice President of American Mortgage Company, located in Houston, TX. Today I am appearing as the designee for Mr. Jake Kamin, who is Chairman of the Board and Chief Executive Officer of American Mortgage Company.

American Mortgage Company appreciates the opportunity to appear before this committee today and give our comments and testimony concerning the VA Home Loan Guaranty Program.

For 33 years, American Mortgage Company has supported this program, as well as other programs promulgated by the VA. Now we find ourselves in a position of having to rethink our support of this program. We have found ourselves in a position, along with the veteran borrowers, where in Houston, TX we are incurring substantial losses from having participated in these programs.

Part of the problem is not only the economic conditions of that exist in Houston, TX, but the rash of dispositions, indiscriminately, of properties in Houston by using auctions as a vehicle, which has substantially added additional devaluation to the real estate values in Houston. According to the research of the University of Houston in real estate, some of these subdivisions have been turned into slums and will now never recover. When the infrastructure is destroyed, when individual dwellings which were occupied by owners are sold at auctions to investors and now become tenant facilities, the overall quality of lifestyle in that subdivision generally deteriorates.

The other problem that we're facing is the no-bid crisis. We suddenly find ourselves in the position, along with the veteran, of sustaining losses which have resulted, sometimes by circumstances beyond the control of anyone, and sometimes by actions or procedures that are followed on a local basis.

Prior to October of this year, the local office was using an administrative fee of 15 percent in the calculation of no-bid prices, contrary to the 10½ percent that was being used throughout the rest of the Nation, and was mandated by the Congress. That situation has now been resolved. But we feel, in our opinion, that the liquidation appraisals which we are seeing, and which are used as the basis of determination for no-bid problems, are flawed. We do not feel that they truly reflect the value of that property if, for no other reason, that the properties are being evaluated for immediate sale in an economically-depressed area.

We ask for your help, not just for American Mortgage Company and the other lenders in our area, but for the veteran borrowers. The same legislation that mandated this formula for the calculation of a no bid in the Deficit Reduction Act of 1984 also mandated that I, as a lender, in the event of a deficiency, will report to the IRS that deficiency as a foregiveness of debt.

Now the veteran borrower is faced with two problems. If it's a no bid, he could have up to a maximum of $27,500 deficiency against him by the VA, which they are mandated to pursue. On the other hand, he has to do battle with IRS at some point in time because those actual figures between the foreclosure sales price and the debt are reported to the IRS. A 1099 is prepared and forwarded to each one of those individuals who could be considered to be receiving additional income through foregiveness of debt.

Ms. KAPTUR. Excuse me. Could the witness pause just a second?

Mr. HOLTON. Yes.

Ms. KAPTUR. Mr. Burton.

Mr. BURTON. Yes. Mr. Holton, I want to make sure I understand this. Can you go through that just a little slower and explain to me, on a specific case, how that works?

Mr. HOLTON. All right. Also, I will point something else out in that regard.

You receive instructions that you're going to be no bid on a VA loan—and let's just use for simplification purposes that the balance is $77,500, and that the guaranty is a maximum guaranty of 27.5. At foreclosure, you bid the difference between the debt, less the guaranty. In this particular case, you have a $50,000 bid. Suddenly, there is a deficiency that is reportable to the IRS under the Deficit Reduction Act of 1984.

If the VA takes the property—

Mr. BURTON. The deficiency would be 27.5.

Mr. HOLTON. That's the VA deficiency. He also gets reported, from my standpoint, because I am mandated to report that deficiency between the bid price at foreclosure, which is the sales price, and the total debt as additional income.

Mr. BURTON. So what would that figure be? You're moving awfully fast.

Mr. HOLTON. The VA has a deficiency position of 27.5 against the man.

Mr. BURTON. Right.

Mr. HOLTON. That's a separate issue. He also now has had reported to the IRS 27.5 worth of income.

Mr. BURTON. The same figure.

Mr. HOLTON. The same figure. But he has two different problems now. If the VA takes title to the property and the total debt is bid at foreclosure sale, there is no reportable deficiency to IRS.

FHA loans do not have to be reported because they bid the principal balance on the loan at foreclosure, or the total debt. So here again, a veteran is being singled out and he's being singled out only if his home is no bid, because he has now got to worry about not only paying back the VA, but he's got to worry about how it's going to impact him in the future with the IRS.

We don't know all the answers to the problems. We feel like, as I have said before, that values that are being rendered for determination in Houston are lower than probably good market sense would tell you if you allowed a reasonable time for the orderly disposition of property. We do ask for your help, not only for our industry, but for the veterans, because that program is in jeopardy in our area. We cannot continue to sustain the losses to support the program.

We have been working with the local VA office in an attempt to design some programs whereby we can refinance delinquent loans. Unfortunately, this last market move destroyed the possibility of substantially reducing a large number of them in the near future. What we find, though, is that the industry is making the move. We need help. There has to be good, viable, assistance programs for veteran borrowers who are suffering economic adversity, when the circumstances are beyond their control.

The solution to the problem in Houston is to first stop foreclosures, and then go into an orderly disposition of property. Give us the tools to work with the veteran borrowers for either temporary relief in the form of informal forebearance agreements, or formal forebearance agreements, or refinancing or assignment, some vehicle to keep that veteran borrower in his home. That motive is self-serving, I will admit, because if I don't have foreclosures, I don't have any no bids and I don't lose money. But we do need your help.

The MBA, who I know is scheduled to testify later, has made some additional recommendations in their testimony, which American Mortgage Company supports. Nobody wins in a foreclosure situation. Everybody loses.

We do appreciate your taking the time to listen to us. We will stand ready to work with this committee and the Veterans' Administration in any way that we possibly can to try to resolve this situation.

Our chairman, in connection with Senator Cranston's bill, made the observation: do you really want to put the homeless in single-family, detached dwellings, where they have maintenance to perform? Would it not be more logical for the VA to consider swapping equal value of single-family housing, perhaps even with HUD, who may have foreclosed on the project, thereby being able to concentrate the efforts and not have to depend upon the indigent veteran to perform maintenance and to buy lawn equipment, to pay taxes, and buy insurance?

We do thank you for your time. Again, we sincerely appreciate the opportunity to appear before this committee.

[The prepared statement of the American Mortgage Company appears at p. 248.]

Ms. Kaptur. Thank you so very much, Mr. Holton.

We have just been joined by the Chairman of the full committee, Congressman Montgomery, from Mississippi, and Congressman John Paul Hammerschmidt stopped in for a second here, so I would have to say that the State of Texas has really gotten attention here this morning.

Mr. Holton. Well, we didn't hear quite as much about it this morning as we normally do when we attend meetings, but Mr. Vogel's point was well taken and we do have problems.

Ms. KAPTUR. Thank you.

Miss Allison, welcome. We're happy to have you today.

STATEMENT OF LORAINE ALLISON

Ms. ALLISON. Thank you.

Madam Chairwoman, distinguished congressional leaders, my name is Loraine Allison, and to my right is Gloria Leder. I am a realtor from Houston, TX and Chairwoman of the Houston Advisory Council to the Veterans' Administration Property Disposition Program in Houston, of which Mr. Vogel spoke earlier.

On behalf of the more than 9,000 real estate professionals in the four organizations comprising this Council, I want to thank you for the opportunity of presenting our views on the problems of the loan guaranty office in the Houston VA regional office, and specifically the urgent need for additional staff and equipment.

Our Advisory Council was formed 8 months ago. We are comprised of four real estate professional groups: the Houston HUD Brokers Association, the Houston Real Estate Association, the Houston Board of Realtors, and the Houston Hispanic Brokers Association.

We are completely independent of the Veterans' Administration. Our time is volunteered, and we are in absolutely no way funded by the Veterans' Administration.

The Council made a serious commitment 8 months ago when it was formed to increase sales by at least 300 percent in Houston, from approximately 200 sales at that time to a minimum of 600 sales per month. To this end, we have produced a thorough pricing study and a complete management study, we have had a computer consultant make a study of the computer equipment needs of that office in Houston, and we have had a panel of experienced real estate attorneys assist in recommending guidelines for certain new sales closing procedures.

We have recommended weekly educational seminars to teach sales brokers the sales procedures of the VA program. To this end, we have procured a centrally-located meeting space for up to 300 guests at no cost to the VA. This is the fourth trip to Washington that Houston real estate brokers have made and, in addition, we have met in Houston on three occasions with staff from the Central Office of the Veterans' Administration. As a product of our efforts, 15 major recommendations have been submitted by the Advisory Council to the regional office in Houston concerning the sales and management of that office.

The Houston regional office has, as far as its budgetary limitations have allowed, attempted to implement as many of our recommendations as possible. But the key word here is "limitations", and that is why four of the eight delegates to the Advisory Council have flown to Washington today to be with you. We implore you to assume a position of encouraging the Veterans' Administration Central Office of act immediately to assign additional staff, office equipment and furnishings, compouter equipment and funds for overtime and contract labor beyond what is now allocated for fiscal year 1987.

Houston's economic woes are a frequent topic for the press, and I feel certain you're already aware of the huge number of foreclosures that are flooding that office. Currently, the regional office has title to 4,817 single-family dwellings, and another 1,737 are properties pending aquisition.

If you will look at page 9 of the report, you will see a graph that will visually represent the number of VA properties waiting to be sold each month in our city. You will notice that the total number is growing and, of course, this means that sales are not keeping pace with acquisitions.

As real estate professionals, as concerned citizens and taxpayers, the brokers and sales agents in Houston are gravely concerned about this trend. Let us be crystal clear in relating the bottom line. The rate of foreclosures sales by the Houston VA regional office is very low as compared to the sales of HUD foreclosures and other real estate resale properties in Houston.

Why is this? It is not because there are no buyers, and it is not because there is not a competitive, enthusiastic sales force in Houston. It is because, ladies and gentlemen, the program is hamstrung with inadequate computer equipment, staff and money for its workload.

Millions of taxpayer dollars are being needlessly wasted on "holding costs" to manage vacant properties and to pay the taxes on them. The Advisory Council, based on a conservative $18 per day holding cost, has estimated that the loss currently on the properties in inventory is over $20 million, and it's growing every day. That amount of loss to our Government certainly stirs us to help rectify the situation. The Council is sure that this is information that our congressional leaders want.

We have buyers eager to purchase VA foreclosures, but the sales and management program in the Houston office is processing files at a rate so slow as to appear to be moving backward.

Attached to my statement is the Advisory Council's computer equipment recommendations as per our computer consultant. The VA Central Office is currently working to provide $6,200 to update the computer equipment in the Houston office. This is a recent development in the past two weeks. We sincerely hope that this $6,200 allocation will be adequate to provide all of the requested computers.

As to the staffin shortages, Houston staff handles an average of 148 properties each, as compared with 92 properties per person as a national average in the VA. These are very telling statistics. The workload is overwhelming by the Houston staff. The Council recommends the addition of 27 full-time employees, some of whom should be computer experts.

As to funds requested for overtime and contract labor, the Council recommends $20,000 per quarter.

Madam Chairwoman, the Houston Advisory Council respectuflly requests the help of these subcommittee members in granting the staff, ADP equipment, overtime and contract funds necessary. The total cash outlay from VA for all itmes requested for a year would likely be less than $700,000. Compare this to the current and mounting loss of close to $20 million in holding costs, a figure which does not even include pohysical depreciation of the properties and loss due to vandalism, and we believe the investment we are recommending would be prudent.

Thank you for the opportunity of speaking. We would be pleased to answer any questions at this time.

[The prepared statement of Loraine Allison appears at p. 255.]

Ms. KAPTUR. Thank you very much. We appreciate your being here. I think we have several questions, and I wanted to begin with Mr. Holton.

We heard testimony earlier this morning from the VA that in some parts of the country the property value situation had turned around. Obviously, that is not the case in Houston, from what you told us this morning.

Mr. HOLTON. Madam Chairwoman, to highlight what Miss Allison has just said, there were 4,700 pieces of property posted for foreclosure in Harris County only for the April foreclosure sale. That was a record that has been set during this period of time. It is critical that all of the governmental agencies work together to try to assist in stopping foreclosures. That is part of the problem. It means there has to be a good, viable program for deserving borrowers, where we can keep them in their houses. But the lending industry itself, the mortgage bankers, cannot absorb that cost. We don't have the money.

Ms. KAPTUR. You said that the first step should be to stop foreclosures. We can do that, but when you say that, you talk about additional servicing? Am I correct?

Mr. HOLTON. No, ma'am. What we're talking about is coming in and determining the reasons for a delinquency, whether the circumstances were beyond the individual's control. If need be, temporarily reduce his interest rates or his payment rates, or even to rolling into the debt delinquent installments because he doesn't have the cash to bring the loan to a current condition.

Ms. KAPTUR. We did that a couple of years ago under some of the HUD programs. Are you referring to that? We had an emergency housing program whereby we tacked on to the end of the mortgage the payments that were not able to be made at that point or at the same level. That seemed to prevent a lot of foreclosures around the country in FHA.

Is that the sort of approach that might take place here?

Mr. HOLTON. Yes, ma'am. As an example, HUD has two programs. One is an assignment program where they physically buy the loan. The other one they call TMAP, the Temporary Mortgage Assistance program, where for deserving borrowers HUD will actually make the mortgage payments for a period of time to allow those individuals to get back on their feet.

We can continue to add to the foreclosure inventory in Houston, and this problem is not going to go away any time in the immediate future. We lost 211,000 jobs between March of 1982 and March of 1987. We are not seeing any substantial increase in jobs in the Houston area at the current time. So we think we're in for a good couple of years of rough sledding before this problem really begins to turn around.

Ms. KAPTUR. In trying to craft some kind of an effort to be helpful to parts of the country like your own, which are undergoing a great deal of economic stress, what do you think the triggering mechanism should be for some type of temporary mortgage assistance program, let's say? What would it be? Because some other parts of the country, like Massachusetts, probably wouldn't need what you need. So what would you use, just off the top of your head, as a triggering mechanism to have a temporary program apply to your part of the country? Have you given any thought to that at all?

Mr. HOLTON. No, not really. You know, when you look at it, I guess—Obviously, if you wait until the problem becomes so massive, as it has in Houston at the current time, then it's a little bit like shutting the barn door after the horse is gone.

Ms. KAPTUR. Why do you think the VA hasn't done this already?

Mr. HOLTON. I cannot answer your question. I really can't. I wish I knew.

The private mortgage insurance companies that insure conventional residential mortgages are extremely active in working with delinquent borrowers and trying to resolve their problems before they go to foreclosure. It is a very unfortunate circumstance for the VA program in my area, because people do have doubts about the viability of that program.

Ms. KAPTUR. I also serve on the other housing subcommittee in Banking, which deals with the FHA oversight and so forth. I am surprised about some of the things, now that I'm chairing this subcommittee, that I'm learning about the VA, both good and bad. You always get this rivalry between FHA and VA. It's really interesting being on both committees. But I am surprised at some of the efforts that are not made by the VA to address the very type of thing that you have talked about this morning that have become due course in other agencies across the Government. That has surprised me.

I don't blame anybody at the VA for it. In my own mind I think I have justified it on the basis that the VA has always looked upon itself only as a guarantor primarily of either new homes, after World War II, or conventional housing. Now all of a sudden it has ended up, after 43 years, with an inventory. It really hasn't begun to look at itself as also an agency that has to deal with repair and rehab, even though there are program managers and people who are in the agencies supposed to be doing those things. Its legislative authority is much different and much narrower than an agency like HUD and FHA. So we have got a problem of focus over there, and nobody is really to blame. I guess it's on our shoulders to try to expand their focus so they can better respond to situations like your own. But that's supposed to be our job. That's why we're happy you're here today.

Miss Allison, before I turn to Mr. Burton and Mrs. Patterson, I wanted to ask you how you view the auction process which has occurred in the Houston area. Would you like to make any additional comments on that?

Ms. ALLISON. Are you referring to the live auctions which occur several times a year at the most?

Ms. KAPTUR. Yes.

Ms. ALLISON. The Advisory Council's unanimous opinion about live auctions is that they are detrimental to the VA and also to FHA and other programs, because they bring lower prices on homes. We understand, though, that they resort, as was said in just that way, to these live auctions. Mainly, I believe they resort to it for the properties which have been in inventory for an extensive amount of time.

In Houston, there are now 182 properties of the entire inventory that have been in inventory available for sale for over 2 years. Those types of properties get targeted for live auctions. I have discussed this quite extensively with Central Office representatives here.

We are opposed to live auctions, and we have an answer instead of live auctions. We believe that public bid openings, with sealed-bid envelopes, brought in over a period of, say, two weeks or ten days by brokers representing VA to the homebuyers, can bring you much better prices in return and drive up the prices through competition.

Ms. KAPTUR. Thank you very much.

Mr. Burton.

Mr. BURTON. Thank you, Madam Chairwoman.

The procedure that you just talked about, Miss Allison, sounds like a pretty good one. We have used it in Indiana on a number of occasions. But there probably still would be some houses that would not be sold through the process and you might still have to have, for the residue, some kind of an auction process.

Ms. ALLISON. That's possible.

Bulk sales are often another answer, small bulk sales. That is a recommendation that this Council has under study at this time.

Mr. BURTON. I'm certainly glad that our illustrious chairman, Mr. Montgomery, is here because this seems like it's really an important problem, particularly for Houston right now. But it appears to me that, as we see recessionary pressures in other parts of the country—You know, up in Iowa they've had farm problems, and in Gary and the northern part of Indiana they've had problems with the steel mills, and over in Ohio there have been problems. I am sure there are various parts of the country that suffer recessionary pressures and problems while the rest of the country goes on unscathed. It appears to me that maybe we ought to look into some kind of a strike force type procedure. Those who are here from the VA might think about that.

You indicated that you would like to see more personnel put into Houston right now because you have this massive problem. You need additional computer programming in order to keep pace with the large number of houses that are on the market up here that have gone through foreclosure.

It seems like, rather than just bring a whole bunch of people down to Houston, and then, when the problem does resolve itself, there would be no place for those people to go within the Government, it seems like if we had some kind of emergency strike force or task force, whatever you want to call it, to go to these areas and to work for whatever period of time is necessary to eliminate or minimize the problem, that would be the way to do it.

I submit to my friends in the VA that this might be one thing you would want to look at. That way you wouldn't have to hire a bunch of new personnel and increase your overhead over there.

Mr. Holton, you indicated there may be some forebearance that's necessary. Have you given any thought as to what period of time, because the Government can't go on forever, you know, excusing people's payments or making the payments for them. But I think your point is well taken and well made, that to throw them out and put the house into foreclosure and to let it sit there and deteriorate is not the answer, either. I am sure you've thought about this. What kind of a system do you think ought to be developed?

Mr. HOLTON. Well, I think it could pretty well be made to track the HUD systems, and those programs can last anywhere from 18 months to 3 years, maybe with some increase in the amount that the individual can pay, which minimizes the subsidy as his economic conditions individually improve.

Mr. BURTON. You're not really talking, then, about foregiveness; you're talking about adding it into the mortgage at some place down the line?

Mr. HOLTON. Yes, sir, either in the form of a second lien against the property, or by an add-back to the debt, which is permissible in the State of Texas.

Mr. BURTON. Do you have any idea how many people who have gone through the foreclosure process would have stayed in their homes had some sort of a program like this been in place? I know that's a toughy.

Mr. HOLTON. I think it would not be unrealistic to say that we probably could have, in some cases, maybe avoided as much as 35 to 40 percent of that situation. People lose hope, and when they see the values in their house deterorating, and when houses are being sold down the street for less than they owe on their mortgage, they become discouraged. And when they have used up their savings to either subsidize a lower-income job ro no job at all, they finally just walk away because there's nothing there to offer them.

Mr. BURTON. Let's take a hypothetical case for just a second here. Let's say that a fellow owes $35,000 on his mortgage, and down the street there are three houses that go up for sale at, say, $29,000. He would probably be likely to move into one of those other houses or to move out, like you say, if he could afford to make the payments, because he was paying more on his mortgage than the properties down the street were selling for.

What would you suggest be done with him? Would you reduce the amount of his mortgage that the Government subsidized?

Mr. HOLTON. There are circumstances that have occurred in Houston, and with the VA's assistance—I don't want to give the impression that the VA has not been working on these problems within a range. They will cover the shortfall on a payoff if it's less than the guaranty, if the gentleman has to dispose of his property. But the real problem is that the values have declined so rapidly, and so much, that the case is not likely to be that he owes $35,000 and it is sold for $29,000 down the street; it is more likely to be that he owes $60,000 and it's being sold for $40,000.

We think that—

Mr. BURTON. Well, what's the answer to that?

Mr. HOLTON. Here again, if the subdivisions can maintain their integrity as subdivisions of homeowners, and not as of tenants, by keeping the homeowners in there, that subdivision will come back.

It will come back to the point where, if it's well maintained, they will regain equity and they will stay in their properties. But when subdivisions deteriorate, they move.

You can't solve all the problems. I don't think that anybody can. But we find it very disconcerting to see the fact that people are being turned out on the streets after losing their home, when maybe with some assistance they could have maintained their home ownership.

Mr. BURTON. In your organization, Miss Allison, have you come up with any concrete proposals? I mean, this problem seems like climbing Mount Everest. It would be interesting to see what kind of proposals you have to offer that the VA might be able to embrace.

Ms. ALLISON. The focus of the Advisory Council has been mainly on the properties that are already foreclosed on and in the hands of the Veterans' Administration for sale. But the Houston Board of Realtors, which is one of the four groups that comprise the Council, is involved in a neighborhood program where realtors adopt a neighborhood and do get actively involved in trying to keep the neighborhoods up.

Are you asking me to address the concerns that do have to do with the foreclosures?

Mr. BURTON. No, it seems like you're conversant with the problem; you're there, with all these precipitous drops in values of property, and with the mortgages being higher than the property values. I just thought possibly you would come up with some kind of proposed solution. This is kind of like the Gordian knot; unless you've actually seen it, you don't know how to cut the thing.

Mr. HOLTON. As I had stated earlier, I felt like it was a two-pronged problem. The first thing you have to do is find some way to at least slow down the number of properties that are coming back into the market through foreclosure, by not turning borrowers out on the street that can, with some assistance, maintain their home. Then the inventory itself can be dealt with in an orderly manner. If it is dealt with in an orderly manner, then you're not pushing the prices down further as a result of panic selling.

I think Miss Allison will agree with me, that that has occurred in Houston, that panic selling has substantially affected values—and these are the live auctions.

Ms. ALLISON. I do agree with that.

Mr. BURTON. Thank you, Madam Chairwoman.

Ms. KAPTUR. Thank you, Mr. Burton.

I wanted to ask Mr. Holton, in your statement you made reference to the VA's refunding program. Why do you think they're not using it?

Mr. HOLTON. I cannot answer your question. I'll be very honest about it. I have been in this business for 25 years now and I didn't even know they had a refunding program until about 9 months ago. I don't even know what they can or can't do. To my knowledge, if it has been used at all in the Houston area, it has been a very, very small percentage of cases.

I understand from our staff that they have taken two loans from us since February under the refunding program. But to my knowledge, from what I can understand, there has only been one refunding of a loan prior to February of 1987 in the Houston area.

Ms. **Kaptur**. It's not very heavily used.

I think one thing that's impressing me this morning is that the representatives of the VA, after they completed their testimony, are sitting here and listening to you—Mr. Vogel, Mr. Pedigo, and members of their staff. So that is noted by the Chair, as well as by the Chairman of the full committee, who has chosen to join us here. So as to the people who can do things, you have the right ones in the room today, so your trip has been worth it.

Mrs. Patterson, did you have any questons?

Mrs. **Patterson**. Madam Chairman, I will reserve any questions I have in the essence of time. But I may submit some in writing.

Ms. **Kaptur**. Thank you so very much.

I wanted to thank this panel. Your testimony is excellent. We really appreciate your taking the time to be here. We will take your comments and your recommendations and, as we proceed with legislation, try to make things better.

Mr. **Holton**. Thank you very much.

Ms. **Kaptur**. I want to now reverse the panels, if I might, in the interest of time. We have a problem with panel No. 6. I would like to call that panel, beginning with Mr. Mike Flowers, President, Chapter 35, Vietnam Veterans of America, Toledo, OH; Mr. Richard Johnson, Assistant Director of the Non Commissioned Officers Association; Mr. David Passamaneck, National Legislative Director of AMVETS; and Mr. Bob Moran, Associate Legislative Director of the Paralyzed Veterans of America.

If I could ask these witnesses as well, if Mr. Flowers could be asked to testify first in the interest of time, and then proceed with the other witnesses in the way they are listed in the program.

I would like to personally welcome Mr. Flowers and his family. I don't think I can think of another president of a Vietnam Veterans chapter that I know personally as well who has devoted as much time and energy to serving the veterans in our area and all over this country. I know what an effort you made to be here today.

I also understand, Mike, that you brought with you Mr. David White and his family. I don't know if they're here in the audience this morning, but please give them my regards. We certainly welcome you and are so happy to have you here today.

STATEMENTS OF MICHAEL A. FLOWERS, PRESIDENT, CHAPTER 35, VIETNAM VETERANS OF AMERICA, TOLEDO, OH; RICHARD W. JOHNSON, DIRECTOR OF LEGISLATIVE AFFAIRS, THE NON COMMISSIONED OFFICERS ASSOCIATION OF THE U.S. OF AMERICA; DAVID PASSAMANECK, NATIONAL LEGISLATIVE DIRECTOR, AMVETS; AND BOB MORAN, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

STATEMENT OF MICHAEL A. FLOWERS

Mr. **Flowers**. Thank you. I appreciate that. It's quite an honor coming from you and we love working with you—you know that—in Toledo. So this is just one more effort to extend ourselves to help the veterans in our own community.

I would like to start out, Madam Chairwoman, and distinguished committee members, by thanking you for giving me the opportunity to comment on the VA home loan program and the homeless veteran issue.

In my written statement I briefly explain the difference between our VVA national office and the VVA Toledo Chapter 35. I also state that while busy with a variety of activities in Toledo, our chapter has not monitored the VA home loan program as closely as our national leadership. Therefore, at this time I do not feel qualified to comment on the program itself or possible problems or changes. I do, however, feel qualified to comment on another very important issue—the homeless veteran.

Over the years we at VVA Chapter 35 in Toledo have had contact with thousands of veterans through our many job fairs, seminars, counseling services, and office referrals. During that time, a large number of homeless veterans have found their way to us.

In my written statement I outline three specific cases, all taking place in March. The most distressing of the three cases concerned a Vietnam veteran, his wife and their infant son. The three were living in a broken-down car, in frigid March weather, with no food, no money, and little hope. Within hours of contacting our office, they were being fed and were given a warm bed for the night. Nightly shelter, however, is only a temporary remedy.

More must be done in areas of employment, as well as counseling services. I feel that these once proud Americans deserve more. As part of my written statement I have included some interesting statistics that were provided by Dr. Harvey Hilbert of the Brecksville, OH Rainbow Counseling and Research Center. Although it is implied, I failed to mention that in the 979 participants in this study, they were homeless people. Please keep that in mind when you review the statement.

The statistics show that 34 percent of the participants were veterans, and 11 percent of that 34 percent were Vietnam veterans. You will find in the study that the Vietnam veteran is actively taking part in agency services currently provided for the homeless. An alarming number of Vietnam veterans have drug and alcohol problems and are not actively seeking help to resolve this problem.

In an effort to help my brother and sister veterans, I am developing a program which may answer some of their problems. Time does not allow me to detail the structure of the proposal here today, but I would like to give a brief overview of the project.

The VVA Chapter 35 veterans housing program includes the purchase of either abandoned or low-cost homes in our city. These homes will be renovated and used as shelters for the less fortunate veterans. The ultimate goal would be the resale of these properties to qualified and low-income veteran families.

The purpose of the program is to help as many homeless veterans as possible to find their way off the streets permanently. Much of the work on the homes will be performed by those homeless veterans. At the same time they will be receiving counseling help to help them readjust to society.

I'm not naive. I do know that many will drift away. But I am confident that many of the homeless veterans, if given the opportunity, will work at reassociating themselves. I am confident that this project can succeed.

According to a summary of Senator Cranston's proposed legislation, the bill will provide only limited housing. It is, however, a step in the right direction. The VA must be made to act on this growing problem. My feeling is that it cannot wait until legislation is enacted. Our country's veterans deserve all the help we can give them now.

In conclusion, Madam Chairwoman, I would like to say that the VVA Chapter 35 is dedicated to the service of our country's heroes. If at any time I may assist you on this or any other matter, please feel free to ask me. I would likewise want to ask you for help on anything that we plan on doing.

I will gladly answer any questions that you have on the project.

[The prepared statement of Michael A. Flowers appears at p. 264.]

Ms. KAPTUR. All right.

I would like to move on to the next witness, if I might, to Mr. Johnson. Let's proceed through all the witnesses and then we'll open it to questions.

STATEMENT OF RICHARD W. JOHNSON

Mr. JOHNSON. Thank you, Madam Chairman. I will attempt to summarize my statement very briefly.

I have one fundamental message to convey to the committee this morning, one fundamental interest on the part of NCOA, and that is to urge the return to basics in the program. We have heard the program discussed in a number of ways this morning, but nobody stated its basic goals.

Its basic goals are threefold: one, to assist the veteran in purchasing a home; two, to assist the veteran in retaining that home; and third, to manage the program effectively, at a minimum cost to the Government—not at no cost to the Government, but at a minimum cost.

How well are they doing? How well is the program doing along these lines? Well, in assisting the veteran in purchasing a home, it has been a tremendous success. $275 billion has been added to the tax bases of communities and cities and counties across the country, and an estimated 12 million homes, (which would stretch around the world seven times) have been built to. These achievements are made possible by the fixed interest rate in the program, by a reasonable guarantee amount, and by no money down loans. They can be extended, as the committee considers its work today, by increasing the guarantee amount, and by killing this proposal—as the committee has already done—killing the proposal to provide for negotiable interest rates.

In assisting the veteran to retain a home, we have heard a number of good ideas. There is already forebearance in many respects. How can this be improved? Well, that's fairly easy. Mr. Leath has proposed at least one way to help some veterans keep homes in his legislation, H.R. 1452. In addition, we need financial counseling and the kind of forebearance that's been discussed earlier.

Management of the program at a minimum cost. Here is where the program has gone just a little awry in recent years. The VA Home Loan Guaranty Program was once a model for Government. Indeed, it was a model for housing programs in other agencies. The benefits of the VA loan guaranty program probably costs less per capita cost of any program in the Veterans' Administration, and perhaps, for the number of people served, in the U.S.

But recently there has been a rather twisted mentality that has presumed that this program should, for some reason, be self-supporting. The proposals for 2½ percent user fees, the proposals on loan sales, the proposals for liquidation of the VA portfolio assets, are all corruptions of an idea that started out to manage the program at a minimum cost to the Government.

The greatest deficiency that exists in that area right now is in the loan sale policy. The Loan Guaranty Revolving Fund was once managed to protect loan income and to assure continued program operation through the adequate sale of loans, in a timely manner, and at a reasonable profit. Now, at the direction of OMB, mostly, it has managed to maximize revenues through quick liquidation. Divestiture of the portfolio assets is being done to achieve political ends and not to continue to support the Veterans' Administration loan guaranty program. Because of this, they have removed self-sufficiency over the past 10 years from the program and it has required massive appropriations to continue to operate. This is also what led initially to the reintroduction of funding fees paid by veterans, the 1 percent funding fee that we have now and the proposed 2 percent.

Divestiture of the portfolio also led to a flight of technical expertise from the agency needed to manage the program effectively, and it has led to the lack of purchasing equipment and the technology necessary to manage a portfolio the size that the Veterans' Administration has. And this mentality continues to this date—the proposed sale of more loans; the proposed increase in funding fee; the proposed modification in interest rates; actual changes in the underwriting criteria, (which were purely gratuitous on the part of the Veterans' Administration, because they had established no empirical data to support such a change) and actual changes in the appraisal system.

All of these lead to some very simple recommendations, to return to basics in the program. Why is the program there? Three fundamental purposes: to manage the program effectively, to help the veteran buy the home, and to help the veteran retain the home. Killing proposals like the ones under consideration today, one at a time, do not get at the basis of the problem.

Thus, we recommend that Congress provide a clear policy for operation of the Loan Guaranty Revolving Fund, to eliminate OMB pressure. That means the authorization of equipment and personnel—and not just in the Central Office, but throughout the country—to adequately manage the problems, and adequate training for those personnel, and adequate equipment for them to work with.

Isolate the program, if it's necessary, to remove it from the budgetary pressures that OMB places on the Veterans' Administration, to sell, sell, sell loans, at whatever revenue base they can get for it.

Re-create the VA as a cabinet agency, if that is the only way to remove those kinds of pressures from the Loan Guaranty Program. Prohibit loan sales when they're made only to meet deficit reduction objectives, and make the program a permanent asset of the agency instead of a continuing liability, by treating it in a whole program concept.

That concludes my remarks, Madam Chairman. I appreciate your patience.

[The prepared statement of Richard W. Johnson appears at p. 275.]

Ms. KAPTUR. Thank you very much.

Mr. Passamaneck.

STATEMENT OF DAVID J. PASSAMANECK

Mr. PASSAMANECK. Thank you, Madam Chairman.

AMVETS appreciate this opportunity to express our thoughts regarding the effectiveness of the Veterans' Administration Loan Guaranty Program and suggested plans for assisting homeless veterans. I wold request that my complete printed text be included in the record.

Ms. KAPTUR. It will be.

Mr. PASSAMANECK. I would note for the record that there is a typographical error on page 3 of the text. The initials UDAC in the second full paragraph should be UDAG, referring to the Urban Development Action Grant program.

The VA Home Loan Guaranty Program has over the years proven itself to be one of the two most widely used and appreciated entitlements provided to veterans—the other, of course, being the GI bill. Not only has this program enabled more than 12 million veterans snce World War II to obtain their own homes, but its beneficial impact on the construction and mortgage industry has yet to be completely measured.

AMVETS approves of the Loan Guaranty Program as it is and sees no reason to fix it or tamper with it. We do approve, however, Mr. Leath's bill, H.R. 1452, on refinancing for active duty military people. We appreciate, Madam Chairwoman, your initiative in introducing House Concurrent Resolution 79 on 16 March, 1987, reaffirming the sense of Congress that the 1 percent fee charged by the VA to veterans obtaining a home loan guaranty should not be increased.

The administration's arguments in support of raising the fee by 150 percent ignores the basic foundation of the program as an entitlement and a readjustment benefit, rather than a business investment. One wonders how anyone can seriously think of excluding thousands of no down payment veteran home buyers from the market as a result of raising the fee, while at the same time, at least in the Senate, an $85 billion housing bill has been introduced which would, among other things, create a new Federal program to grant interest-free home loans to low- and middle-income purchasers in "depressed" areas. Here in the Nation's capital, you could make $41,000 a year and qualify for this proposed program.

AMVETS is also opposed to the administration's proposal to free the limits on allowable interest rates for VA guaranteed loans, which has been embodied in H.R. 1998 and S. 920, which would also increase the loan fee.

Since the inception of the 100th Congress, despite repeated warnings about the necessity for budgetary restraint, to include veterans programs, massive and very expensive programs purportedly to provide a wide range of assistance to the homeless have been enacted or are pending. These measures include the Homeless Emergency Relief and Emergency Aid to Homeless Families Act, and the Homeless Persons Survival Act, which have been enacted, as well as the following measures which are pending: S. 4, 37, 809, 810, 811, 812, 813, 447; and H.R. 4, 286, 290, 287, 288, 289, 558, and 598. S. 809, the Urgent Relief for the Homeless Act, alone would cost over $400 million.

None of these measures even begin to address the root causes fo the current expansion of the homeless population—rent control, the deinstitutionalization of the mentally ill, and the misdirection of HUD funds into such boondoggle programs as Urban Development Action Grants which enables promoters to building shopping centers and luxury hotels.

AMVETS has no objection to the provisions in S. 477, or similar proposals, for the sale of foreclosed properties to veterans and other nonprofit organizations, understanding that this procedure will have no adverse impact on either the financial integrity of the loan guaranty fund or the defaulting veteran. A successful trial of this proposal is now being carried out by the VA in the District of Columbia. We are not sure that the law does not now allow for such an option.

We also support measures to reinforce outreach and psychiatric and employment assistance to veterans among the homeless, but we want those measures to function within the existing and extensive scope of VA benefits rather than drain resources from those entitlements into ancillary and unnecessarily bureaucratic extensions of the VA's responsibilities. We particularly object to the micro-management reporting and survey requirements which S. 477 would impose on the VA, at a tragic cost in short-handed VA resources.

The fact that the VA has done much to help veterans obtain education, jobs, homes, and health care services, does not mean that more cannot be done to address the complex problem of the homeless. Let us keep in mind that mental illness, alcohol and drug abuse problem, and general psychological problems are major factors which contribute to homelessness among veterans. It therefore may be necessary to expand or fine-tune existing programs to address the homeless issue.

Simply providing unsupervised shelter to the homeless does not address the many complex problems which they face. Housing homeless veterans, many of whom have chronic mental illness or alcohol and drug abuse problems, in unsupervised residential homes, without adequate support services, is unwise and inadequate.

Thank you.

[The prepared statement of Colonel Passamaneck appears at p. 283.]

Ms. KAPTUR. Thank you, Mr. Passamaneck, very much.

Mr. Moran.

STATEMENT OF BOB MORAN

Mr. **Moran**. Thank you, Madam Chairwoman.

I will be very brief this morning, since our testimony is in the record.

I would like to talk for a minute on a personal basis. I heard Mr. Davis speak on a personal basis about the property in his neighborhood, and Mr. Burton from Indiana, which I am originally from, so I would like to comment on the fact that this year I was part of the 12th million group on a home loan guaranty, and very proud of it. And to the Congress and the VA, I appreciate that. I also have utilized the special adapted housing, Veterans Mortgage Life Insurance, and the HISA grant.

So, speaking on a personal basis, the programs are there, they are in place. And even though we are experiencing problems with foreclosures and the portfolio, which you have heard from some experts, the programs are assisting veterans and for that I thank you and the VA.

I would like to touch just a minute on the homeless issue contained in S. 477. PVA agrees with the concept that if the VA or, for that matter, if an agency has a home, and we have homeless veterans, and those two could be matched, we agree with that concept. I don't think anybody can disagree with that.

We pointed out in our testimony that there are Federal programs, 70 Federal programs, 18 VA programs, and as Mr. Harvey alluded to earlier, the VA is doing outreach to the homeless veteran.

I think the bottom line of what we're trying to say is that to drastically change a program, such as the VA Home Loan Guaranty Program, without knowing all of the implications, might be unwise.

That concludes my testimony. Thank you again.

[The prepared statement of Bob Moran appears at p. 291.]

Ms. **Kaptur**. Thank you very much.

I would like to open it now for questions. Mr. Flowers, Mike, I wanted to ask you, do you know how many homeless veterans there are in Toledo?

Mr. **Flowers**. In Toledo, we have managed to do some studies in the shelters that already exist. These would be Catholic agencies and the other services provided by churches and the local community.

On any given night, there are approximately 25 to 30 veterans that find their way into a program shelter. That figure is subject to change at any given night. We don't know if the same person is in there the next night. So studies are being done right now in our own community to find out the exact number.

On personal contact, I can tell you I've had dozens of veterans come through that just don't know where to go. They won't use the agencies. They may not trust them; they may have heard some horror stories about an overnight shelter and they won't go there. They may depend on a friend to help them at that particular time. So we are very vague on the exact numbers in Toledo. But given the study from Ohio, and the fact that Toledo was included in that particular study, and our personal contact, I would say it's a much higher need.

What I propose to do is to not take care of the veterans just in my own community. I want to invite veterans to come to my community that may wish to retrain, that may wish to get an education, and that may wish to get some alcohol and substance abuse help, and then help me, in turn, build a home for our brother veterans, then to move on and hopefully get them in the job market and have them working again.

In my study I also include the fact that the warmer climate areas have a higher rate of homeless people. It's a fact. But they do drift back to our community, to Toledo, OH, on the warmer summer months. That is because it's possibly their home, or a place that they feel they may find a job.

Ms. KAPTUR. Could I ask you how you're going about finding suitable homes to rehabilitate? Are you using the VA's list?

Mr. FLOWERS. No, not at all. I don't even know where the 52 homes are that we're talking about right now. I haven't even gotten into that.

We are lucky in Toledo that the city is taking on a program. The city council just recently passed some legislation to utilize up to $250,000, I believe, to study—I think there were about 300 homes that are abandoned, properties that will require some renovation. They have plans in turning them over to nonprofit organizations. We happened to be talking about our program when they started working on theirs. It is going to be a unique situation for us in Toledo, in that the city council has approved the distribution of these homes. We hope to, of course, get them and maintain them at low or no cost.

Ms. KAPTUR. Have you made any contacts to the Veterans' Administration?

Mr. FLOWERS. That is part of the proposal. The entire program I'm working on will take 3 years. This first 6 months, which starts on May 14—that's when I get the program started in Toledo, the official start—the first 6 months will be to contact every agency there is.

The funding and everything else, we do not plan on going after Veterans' Administration money. But if a program comes up, we'll be right in line with it. But we want to see a program that works. We don't just want to throw money at a problem.

Ms. KAPTUR. I was just trying to recall, that about two weeks ago we had excellent witnesses before this subcommittee that are working with the VA. In fact, there was one organization that was Detroit based—I think it was called Urban Revitalization, where the director Mr. Radtke was going over to the VA to ask if he couldn't somehow match moneys that he had raised in the private sector with the VA inventory, and then try to work through nonprofit groups around the country. He had identified Toledo as one of the cities. I thought maybe he was working with you.

Mr. FLOWERS. Not at this time, but I'll be glad to get that address.

Ms. KAPTUR. Right. It sounded like a very good group.

Also, Neighborhood Housing Services was here and they have done projects. There was one in California with the CalVet group. They are very interested in owner-built housing, where they are able to put some veterans together, or through nonprofit organizations, to build new construction. They were interested in some additional demonstration projects.

We asked them if they had ever worked with the Veterans' Administration, and they had not. They worked extensively with HUD and, of course, they have their own agency now, which is federally-funded, but also gets a lot of private funding. So there are quite a few groups out there that would be easy to network with. I am sure they will find you if you haven't found them.

Mr. Burton, did you have any questions?

Mr. BURTON. I have no questions, Madam Chairwoman.

Ms. KAPTUR. Mrs. Patterson.

Mrs. PATTERSON. I have a question of Mr. Flowers. I'm a former employee of VISTA, so I am very interested in that program. I understand you have made a request for VISTA volunteers, is that right?

Mr. FLOWERS. Yes. Well, right now I have one VISTA volunteer that was working on a program that I wrote 3 years ago. It was an employment program. I plan on continuing that program and marrying it to this new program. I am requesting two volunteers for this current program.

They will basically do much of the research and helping me computerize all of the network that I need to start the program, to find those veterans. That's the number one thing. We have to have the veterans out there. They'll find us. They have already over the years. I've been found.

Mrs. PATTERSON. Have you heard from that request?

Mr. FLOWERS. I am supposed to contact a gentleman in Columbus on Thursday of this week, tomorrow. I will be contacting him for the finalization of the project. There's a couple of gray areas that he wanted me to go over. But he is impressed with the program, too. He says something I must address is education, the homeless veteran, and employment. So I have all three in my program. The entirety of the VISTA need is what I'm addressing, and I'm pretty sure I will get the volunteers.

Mrs. PATTERSON. I commend you for using that agency. I think that's a source that a lot of people have not taken advantage of and should, to help cut costs and bring in some valuable resource people.

Mr. FLOWERS. They've been very good to me.

Mrs. PATTERSON. I appreciate you're using them.

Ms. KAPTUR. I wanted to ask Mr. Johnson, Mr. Passamaneck, and Mr. Moran, one final question, and then one of Mr. Flowers. And while you three gentlemen are thinking of the answer, I will ask Mr. Flowers a question.

My question to each of you gentlement is, if you could change one thing in the VA Home Loan Guaranty Program, what would it be?

While you're thinking of that, I wanted to mention to Mr. Flowers that we had asked the VA and the City of Toledo to identify for us properties that were sitting in the inventory and had not moved for a very long time. We have a list which we consider to be incomplete. We can certainly make that available to you. We have asked the VA to identify for us which properties they believe are in their inventory in the Toledo area, for how long they've been on the rolls, and how they intend to dispose of them. So there is an existing list, and the City of Toledo's housing office has a partial list of properties. That may be of interest to you.

Mr. FLOWERS. I thnk what we will be doing is taking anything you can help me with on the VA inventory and matchng it against this current list of over 300 homes that are vacant. If, in fact, there are those homes, they are probably the ones we'll target ourselves for. Thank you.

Ms. KAPTUR. Very good.

The gentleman from Detroit also worked a lot with trying to train veterans, just as you're doing, employing them in the redevelopment efforts that are going on in several cities around the country. So you two should definitely get together.

Mr. FLOWERS. A final note on that is, I'm not afraid to use any of the agencies out there—the Small Business Administraton. I would love to be able to create a real estate agency of veterans going out, taking this show on the road, so to speak, and show other communities how they, in turn, can do some urban revitalization, to use the veteran population that may be less than adequately prepared, financially, to purchse a home. A brotherhood of veterans is what I basically consider all of the veterans' organizations. We will help each other. The vets will find us.

I appreciate the opportunity to speak to you about it today.

Ms. KAPTUR. We appreciate your being here.

Mr. Johnson.

Mr. JOHNSON. Thank you, ma'am.

That is a fairly simple question, after that dissertation I gave this morning. I would re-create the portfolio, rebuild the portfolio, to a level from which profits would once again sustain the program and lead to other improvements in the program and eliminate the fee.

Ms. KAPTUR. Thank you.

Mr. PASSAMANECK. I think one way to do that is to increase the guarantee limit to something realistic. I think $27,500 is really a fantasy. It doesn't fit in with the real estate market as it really exists. I would think we would probably get better lender participation. I know darned well we would get more serious and more diligent underwriting and investigation of loan carrying ability. We would probably get better risks involved in the system. I think we would have fewer foreclosures if we did it that way.

Ms. KAPTUR. Thank you.

Mr. Moran.

Mr. MORAN. I think I will have to agree with both of them. I was going to say the assurance that the 1 percent user's fee would remain, but as Mr. Johnson alluded to, as far as the portfolio self-sustaining and revolving and reducing or doing away with the user fee would be a good one, and to raise the 27.5 maximum to a more realistic figure.

Ms. **Kaptur**. All right. I want to thank all of you gentlemen on behalf of the subcommittee for being here today. You were a most lively panel. Thank you.

Mr. **Passamaneck**. Thank you, Madam Chairman.

Ms. **Kaptur**. I want to thank panel No. 4 for waiting. Mr. Ronnie Wynn, Chairman of the Legislative Committee, Mortgage Bankers Association; Miss Shirlye McVay Wiseman, Vice President and Treasurer of the National Association of Home Builders; and Mr. Robert Muffley, Vice Chair, Real Estate Finance, Subcommittee on Government Morgage Programs, with the National Association of Realtors.

You have been most patient and we really appreciate your being here today. We are waiting for your testimony with baited breath.

Mr. Wynn, I understand that you have a 2 o'clock flight and you must be leaving, so we will respect your time and ask you if you wouldn't mind going first. We will put your full testimony in the record and, if you want to just comment, then we'll open it up for questions.

STATEMENTS OF RONNIE J. WYNN, PRESIDENT, COLONIAL MORTGAGE COMPANY, MONTGOMERY, AL., APPEARING AS CHAIRMAN, LEGISLATIVE COMMITTEE, MORTGAGE BANKERS ASSOCIATION OF AMERICA; SHIRLEY MCVAY WISEMAN, VICE PRESIDENT AND TREASURER, NATIONAL ASSOCIATION OF HOME BUILDERS; AND ROBERT J. MUFFLEY, VICE-CHAIR, FHA/VA GOVERNMENT MORTGAGE PROGRAMS SUBCOMMITTEE, REAL ESTATE FINANCE COMMITTEE, NATIONAL ASSOCIATION OF REALTORS

STTEMENT OF RONNIE J. WYNN

Mr. **Wynn**. Madam Chairwoman and members of the subcommittee, my name is Ronnie Wynn, and I am President of Colonial Mortgage Company of Montgomery, AL. As you mentioned, I am also Chairman of the Legislative Committee for the Mortgage Bankers of America.

MBA appreciates the opportunity to appear before you today to testify on the VA Home Loan Guaranty Program and on the legislative agenda that is before the subcommittee. This is our first appearance since you have become Chairwoman and it is certainly our pleasure to congratulate you and express our appreciation that you have undertaken the leadership of this very important committee to our Association. We look forward to working with you and the other members of the subcommittee.

From a historical perspective, the VA Home Loan Guaranty Program has worked well, helping millions of veterans become homeowners, some 12 million. Congress, the VA, and the mortgage industry have worked together over the years to address concerns that have arisen in the course of delivering the home loan entitlement program to veterans. However, with the constant threat of increased user fees and the very real crisis of the no-bid situation, we believe that now is the time for Congress to reexamine whether it wishes to continue the program as an entitlement. It was not designed to be actuarily sound or supported by user fees. Congress should decide whether the purpose now is the same as it has been for the past 40 years--that is, giving the veteran an opportunity for home ownership in exchange for military service for this Nation.

The darkest cloud hanging over the Home Loan Guaranty Program is the no-bid crisis, which has been worsened by the delays in the foreclosure process. The VA has always had the option, in the case of a loan default, of either taking title to a foreclosed property and paying the lender the loan amount, or leaving the property with the lender and paying the lender only the guaranty amount, or what is now known as a "no bid".

Prior to 1984, the VA, in almost 99 percent of the cases, acquired the property. Congress changed the program in 1984 by creating a formula, which is due to expire on September 30 of this year, which has dramatically increased the number of foreclosed guaranteed loans that have resulted in VA entering a no bid. The number of no bids was 15 percent of all foreclosed loans in 1986, up from 1.5 percent in 1982. This has caused lenders to suffer severe losses. With an average net loss per loan of $16,500, industry-wide losses totalled more than $86 million in 1986.

The ramifications of this congressional action have been far-reaching. Congress has shifted the risk of VA-guaranteed home loans to private lenders, leaving them with little choice but to make business decisions to deal with this shift of risk. The no-bid problem is forcing lenders to increase requirements that will make mortgage credit more difficult or, in some cases, impossible for veterans to obtain. Som lenders have stopped originating VA-guaranteed loans altogether.

The authority for the VA no-bid formula is scheduled to lapse on October 1, 1987. MBA believes that this authority should lapse, if Congress intends the program to continue as an entitlement. At a minimum, if the no-bid formula is extended, the extension should be a temporary one, and changes should be made that will reduce the number of no bids that are caused by delays in the foreclosure process.

In particular, Congress should delegate foreclosure authority to lenders in order to reduce delays, and accrued interest should not be included in the no-bid formula in certain cases where there are delays in the foreclosure process. These would include avoidable delays caused by the VA after the lender is in a position to foreclose; unavoidable delays such as bankruptcy; and delays caused by forebearance.

MBA believes that one of the major problems faced by the Home Loan Guaranty Program is inadequate staff. Because the likelihood of additional staffing is remote, MBA believes that available staff resources should be maximized by streamlining the loan processing workload. Shifting performance of some of the loan processing steps from the VA to lenders would allow the VA staff to utilize their resources more efficienty by concentrating on those functions that are essential for the VA staff to perform.

There are several other additional items that MBA would like to comment on, and I will list those briefly:

MBA supports an increase in the maximum guaranty amount; MBA supports a negotiated VA interest rate; MBA urges that adjustable rate mortgages be authorized for the VA Home Loan

Guaranty Program; MBA believes that selling loans without recourse would result in heavy losses to the Loan Guaranty Revolving Fund and would likely make them ineligible for inclusion in the Ginnie Mae mortgage-backed securities program; MBA believes that the VA should be as flexible as possible in making vendee loans when selling properties acquired by the VA; and MBA believes that the specifics of any homeless veterans legislation should be fully examined, particularly with respect to the impact on the Home Loan Guaranty Program.

Mortgage bankers are proud of the fact that they have participated in making a program work that has helped 12 million American veterans become home owners. In fact, it was only a short while ago that the 12 millionth loan was made by a mortgage banker in Phoenix, AZ. We appreciate your concern, Madam Chairwoman, and members of this subcommittee, that the program continue to be operated in the most effective way possible.

Thank you for the opportunity to testify. MBA would be happy to answer your questions and provide any additional informtion.

[The prepared statement of Ronnie J. Wynn appears at p. 294.]

Ms. **Kaptur**. Thank you. Your testimony is just excellent. We will hold questions for the moment.

Let's go on to Miss Wiseman, who is also a former FHA Commissioner.

STATEMENT OF SHIRLEY MCVAY WISEMAN

Ms. **Wiseman**. Madam Chairman, my name is Shirley McVay Wiseman and I am Vice President and Treasurer of the National Associtionof Home Builders. I am familiar with the FHA and VA housing programs, both as a builder and as a former Deputy Assistant Secretary and Federal Housing Commissioner at HUD. I would like to thank you for allowing us to testify, and I would also like to thank you personally for your long record in the area of achievement in housing.

I would like to applaud the subcommittee for quick action in passing your legislation, which commends the VA for their outstanding service to veterans and rejects the VA fee increase. The fee increase could cost the veteran an additional $1,000 in up-front costs, and over $3,000 if amortized over the life of the loan.

Concerning your legislative agenda, first we recommend that the subcommittee retain continuation of the 1 percent origination fee for 1 more year to support possible losses to the Revolving Fund. However, Congress should give serious consideration to the issue of whether the program is truly an entitlement for which user fees would be inappropriate.

Second, we support an increase in the loan guaranty amount from $27,500 to $36,000. The rise in new home prices of 46 percent since the last time the loan guaranty maximum was raised in 1980 would actually support an increase in the loan guaranty to over $40,000. You may want to consider the establishment of a mechanism that would automatically trigger an increase in the loan guaranty maximum as home prices rise. We would also support a formula to provide differentials for high cost areas, such as those under FHA.

Third, we recommend that a down payment be required on mobile homes. Rising defaults have left Ginnie Mae holding $900 million of mobile home mortgages out of the $3.1 billion outstanding loans. The agency estimates these defaulted portfolios will produce losses of up to $45 million over the next 5 years. The delinquency rate on the mobile/manufactured homes in the portfolios taken over by Ginnie Mae is 21 percent, including foreclosures of 10 percent.

The VA experience shows a 17 percent delinquency rate for mobile/manufactured homes in 1986. Claims from lender foreclosures represent 6 percent of outstanding loans in 1986. Additionally, mobile homes do not appreciate in value and do not have the same durability or energy efficiency as site-built or modular homes.

Fourth, we recommend that veterans who have been transferred be allowed to refinance their loans before sale, even though they are not owner-occupants, as now required in the law. Letting a veteran refinance the loan at the current 9.5 percent interest rate will be beneficial both to the veteran and to the home buyer. It will allow veterans to sell homes which have been sitting on the market at interest rates as high as 13 and 14 percent, thereby preventing defaults and foreclosures.

We also hope that the subcommittee will exempt the loan ceiling from sequestration provisions of the Deficit Reduction Act as it is very important to maintain an uninterrupted flow of funds to the program. Congress had to increase the ceiling twice last year, causing disruptions in the program.

In addition, we want to reiterate our support for an adjustable rate mortgage as an added financial mechanism for veteran home buyers. NAHB's policy supports an adjustable rate mortgage identical to FHA's adjustable rate loan, which allows interest rates to rise no more than 1 percent per year, with a cap of 5 percent over the life of the loan. Interest rates for an adjustable rate mortgage are typically 1 or 2 points lower than a fixed rate loan, resulting in a savings of as much as $100 per month to the veteran purchaser.

Concern has been shown that veteran home buyers are at the lower end of the affordability market and could be impacted by a rising ARM. With the new credit underwriting guidelines implemented by the VA last year, and more stringent rules for qualifying, we feel that it will not be a problem.

If the ARM is patterned after the FHA ARM, there would be no negative amortization. When ARMs were first introduced, some allowed for negative amortization—that is, payments that don't cover all the interest due. Unpaid interest was added to the loan balances and borrowers ended up owing more than the home was worth. This type of loan suffered a very high foreclosure rate and was quickly abandoned.

In closing, I would like to emphasize our opposition to the increase in the VA user fee, support for increase in the loan guaranty maximum, exemption from mortgage ceilings, provision for an adjustable rate mortgage, and a mobile home down payment.

Thank you very much. I would be pleased to respond to any questions.

[The prepared statement of Shirley McVay Wiseman, with attachment, appears at p. 307.]

Ms. KAPTUR. Thank you.
Mr. Muffley.

STATEMENT OF ROBERT J. MUFFLEY

Mr. MUFFLEY. Good afternoon, Madam Chairwoman. My name is Bob Muffley and I'm a realtor from the town of Gooding, ID. I am currently the Vice-Chair of the Government Mortgage Programs Subcommittee of the Real Estate Finance Committee for the National Association of Realtors. On behalf of the 780,000 members of our association, I want to thank you and the members of this committee for the opportunity to present our views on veterans' housing issues, and specifically on those matters affecting the VA Home Loan Guaranty Program.

We are delighted to see that the VA Home Loan Guaranty Program recently reached the 12 million loan mark, evidence of the program's success in providing home ownership benefits to veterans who have served our country for the past 43 years.

The National Association of Realtors continues to believe in the viability of the Home Loan Guaranty Program and pledges its support to working with this subcommittee to ensure that the program continues to serve the veteran home-buying public.

We are also mindful of the continuing efforts of the administration to weaken the various Federal housing programs. We believe that Congress should develop a national housing policy in order to provide a reasoned framework in which to address our country's housing needs. In fact, our Association, the Mortgage Bankers Association, and the National Association of Home Builders have developed our own statement, which was announced and distributed on March 17 of this year. A copy of our recommendation entitled "Toward a National Housing Policy" is attached to our testimony for the record.

Madam Chairwoman, I wish to offer the Association's following comments on the categories of budgetary, legislative, and program aspects of the VA Home Loan Guaranty Program. First I would like to touch on the budget.

In the budget area, the National Association of Realtors continues to oppose the administration's efforts to increase the VA funding fee from 1 percent to 2½ percent. The VA Home Loan Guaranty Program was established as a veterans benefit, an entitlement program that was secured by the service to one's country. There was no congressional intent that the program serve as an instrument to achieve any Federal economic objective. The purpose of the program would be dramatically altered by a user fee increase. Eligible veterans desiring home ownership would likely be denied.

We do, however, continue to be concerned about the financial stability of the VA Loan Guaranty Revolving Fund. Unfortunately, the Direct Loan Revolving Fund, which has historically transferred its earnings from interest income on direct loans to the Loan Guaranty Fund, was terminated in 1981. The situation is further exacerbated by the administration's efforts to require VA to sell its vendee loans to investors without recourse. Because these assets must be sold at a discount, it is highly likely that funds generated from such sales will be inadequate and will result in additional losses to the Loan Guaranty Revolving Fund.

With regard to proposals concerning the sale of VA's $900 million portfolio, loans which appear to have limited investor appeal, we recommend that a careful market analysis be undertaken before these loans are sold.

On some legislative concerns, Madam Chairwoman, the National Association of Realtors strongly supports legislation to increase the VA loan guaranty limit. Since the last time the guaranty limit was raised in 1980, median sales prices for homes have increased 33 percent, supporting an increase in the guaranty amount to $36,850.

Second, because we oppose an increase in the 1 percent funding fee, we would support legislation to extend the fee at its current level for another 3-year period.

Third, it is our understanding that there has been some discussion of requiring new credit underwriting on VA loans which are assumed when a veteran sells his or her home. As you may know, the National Association of Realtors has been an active opponent of HUD's proposal to require a credit check of all assumptors within 24 months of the origination, or of a previous assumption. We are not aware of any data which supports the claim that a majority of VA defaults have arisen from assumptions. We can see no reason to change the VA assumability feature, which has worked successfully for over 43 years.

The National Association of Realtors supports the proposal to permit refinancing of VA loans for veterans who have been transferred. We believe this proposal will aid veterans who are unable to meet residency requirements but who have high interest rate loans.

On the program side, Madam Chairwoman, the Association wishes to offer some additional comments and recommendations. First, we recommend that the subcommittee consider legislation which was introduced by Representative Stan Parris in the 99th Congress, which would speed the VA appraisal process by delegating some of the appraisal functions to approved lenders. The Association also agrees with our colleagues at the Mortgage Bankers Association, that the loan processing mechanism could be accelerated by more of the clerical functions being performed by these approved lenders. The Association recommends no change be made in the current percentage limitations governing the use of vendee loans to sell inventory properties. VA needs the flexibility to use all available methods to sell its acquired properties, and we see no reason to alter the existing limits.

On the matter of homeless veterans, the National Association of Realtors supports efforts to provide shelter for homeless veterans. We have reviewed the provisions of Senate bill 477, the Homeless Veterans Assistance Act of 1987, and we certainly believe that the goals of the bill are deserving of congressional attention. Senate bill 477 proposes that VA-acquired properties which have been on the market for 12 months or more be used to help the homeless veteran. While we feel that this proposal is a creative approach to solving the homeless veteran problem, we urge the subcommittee to examine all of the potential ramifications of such a program on the health of the Loan Guaranty Revolving Fund.

In conclusion, I would like to thank you, Madam Chairwoman, for your time. I would be glad to answer any questions.

[The prepared statement of Robert J. Muffley, with attachment, appears at p. 321.]

Ms. KAPTUR. Thank you all very much, and the associations that you represent. You are absolutely critical to the success of the veterans housing program and we greatly appreciate your being here today.

I wanted to start with Miss Wiseman, if I might. I haven't seen the statistics lately, but in your judgment, how important is manufactured housing in the housing market today? The figures were growing, the last time I looked.

Ms. WISEMAN. I think that manufactured housing plays a part in the overall housing picture. However, with the title VI exemptory ruling, I would like to see some strengthening in the code and standards that they're built to. Certainly in the appraisal process—

Ms. KAPTUR. We're trying to do that in the companion, H.R. 4.

Ms. WISEMAN. I certainly believe the down payment issue is significant. We get truer value in our down payments because the appraisals, as you are aware, are based on invoice from the manufacturer. That doesn't really lead to good quality appraisals.

Ms. KAPTUR. What level of down payment would you recommend?

Ms. WISEMAN. I would recommend probably 10 percent; that is the down payment that HUD requires on title I. And because of the abuses and kickbacks from manufacturers to the dealers, and the appraisal process, I believe that 10 percent wouldn't even be a true 10 percent. So I think those problems have to be addressed, and then a real 10 percent rate would be acceptable.

Ms. KAPTUR. Thank you for that. I think the subcommittee is undecided at this point on what we're going to do on the down payment issue, but we are most appreciative of your testimony.

I wanted to ask Mr. Wynn, you have contacted the Veterans' Administration regarding your recommendations on the no-bid issue, and since many of these can be accomplished administratively, have they indicated whether they plan to consider any of the things you have recommended?

Mr. WYNN. I think the VA itself is sympathetic and in agreement with most of the positions that we discussed. However, I think they must get permission to implement them from OMB, and I am not sure OMB has been sympathetic.

Ms. KAPTUR. All right. That's helpful. They never are.

You state, Mr. Wynn, that if the Congress extends the VA no-bid formula, it should seriously consider changes that would lessen the harsh treatment of lenders, especially in economically-depressed parts of the country.

Under the current formula, how would you treat them differently?

Mr. WYNN. Well, in the depressed parts of the country, the VA no-bid has increased dramatically in terms of percentages. If you look at the oil belt or the oil patch, it has increased tremendously in those areas. I think there needs to be some thought given particularly for those areas.

I think, primarily, there are some very sound administrative changes that could help everyone. Everybody is involved in the VA no-bid problem that makes VA loans now. There are some very sound changes that we recommended in the administrative process that would not only help those oil patch lenders but would help all lenders dealing with no-bid problems. They are set forth in our written report. If you would like me to expound on them here, I will.

Primarily, it has to do with the delays and VA's staffing being able to respond to us during the foreclosure period. An extra month or two of accrued or unpaid interest causes that loan to go into a no-bid category, whereas it would not have otherwise.

Ms. KAPTUR. And then the ultimate result of that, you talked about the true cost to your industry of those delays, is staggering.

Mr. WYNN. It really is an amazing number. We don't know that that really is the true cost, because a lot of those properties have not yet been disposed of.

Ms. KAPTUR. What do you think of some of the things you heard about this morning, proposals from different groups or references to previous hearings, where we're talking about trying to move that inventory? Do you think the VA, working with private groups, could accomplish that?

Mr. WYNN. I think one of the major problems is VA's ability to have the staff to work with private groups. In many, many cases, they just do not have the resources available to them, because of budgetary restraints, to address the problem with private industry.

Ms. KAPTUR. I can't remember which witness talked about getting approved lenders to do some of the appraisals; someone was talking about that this morning.

Mr. WYNN. Just as we have the ability to do an automatic approval process with VA automatic lenders, we are probably better staffed to do the total foreclosure process. One of our recommendations was to let lenders become VA automatic foreclosures, which would again allow that property to be put on the market in a much better physical condition because we're able to cause the title to pass and be placed in the hands of real estate firms and agents for sale much quicker.

Ms. KAPTUR. How do we avoid the problem we ran into with the appraisers, the difficulty of so many of them who aren't licensed, that there are no standards, that the VA was using appraisers that got in a little trouble out there. How do we make sure that we don't encounter similar problems, if we move in this area to give greater authority on the lending side—I assume that lending institutions are examined, so they would be less harmful. But we really walked into a thicket with appraisals.

Mr. WYNN. With authority, of course, goes responsibility. Therefore, if we are given the responsibility, I believe that the vast majority of the lenders will ensure that those appraisals are done by competent appraisers who know what they're doing.

Ms. KAPTUR. Do you think there should be a national standard for appraisers? Congressman Barnard of Georgia has been working very hard on that and held hearings in the Government Operations Committee. There is an interagency task force working now on trying to upgrade and actually have the VA used licensed appraisers. We seem to be moving in that direction.

Mr. **Wynn**. I think that the professionalism in the appraisal business certainly needs to be standardized. As far as an appraiser being qualified that resides in the southeastern part of the U.S. having to also be qualified to appraise property in California, no, I don't think that would be appropriate.

Ms. **Kaptur**. Mr. Muffley, you state that the VA's recently announced sale of loans without recourse resulted in light bidding, low prices, and therefore the Administrator decided not to accept any bids. I asked Mr. Vogel to comment on that and he verified the statement.

Do you think that this was an isolated incident, or do you think that selling loans without recourse will always result in substantially discounted prices?

Mr. **Muffley**. Any time, Madam Chairwoman, you're selling anything without recourse, you're going to have a tough time on the open market. Right now there is not that much risk capital out there, or venture capital, who wants to take this type of thing up. The type of loans that are selling are your high-risk type loans. I think they would have to take a severe discount.

Ms. **Kaptur**. Mrs. Wiseman, you indicated in your testimony you are concerned with the administration's policy to sell loans of the VA and other Federal agencies, and the overall impact that it would have on the long-term health of various programs.

Do you therefore believe that the administration proposal is a short-term solution and could lead to even higher deficits in the future?

Ms. **Wiseman**. I think that the interaction of the income strain is very significant. I don't believe asset sales are the solution.

Ms. **Kaptur**. Mr. Wynn, in regard to the subcommittee's legislative proposal to require new underwriting on VA loans which are assumed, why do you only recommend this change in procedure for all assumptions that occur in the first year of the mortgage?

Mr. **Wynn**. Well, the primary reason for recommending a 1-year period is that that would prevent a set of circumstances in which a veteran was approved and his credit was used with no intentions to ever occupy the property, but with the intention of turning around and selling that property, or within a very short period of time, as a way to get around the real purpose of the program. We feel that if within a year's period of time this has not happened, then probably the real intent of the veteran applying for the loan in the first place was for home ownership and not for some way to create a piece of property which they can put their guarantee on and then sell without the credit having to be underwritten and selling a property for profit as opposed to home ownership.

Ms. **Kaptur**. And you also indicated in your testimony that, in responding to this no-bid situation, a lot of your lenders had chosen not to make loans and they stopped originating them.

I'm wondering, are those concentrated in certain parts of the country?

Mr. **Wynn**. I'm sorry. Would you repeat the last question?

Ms. **Kaptur**. That in response to this whole no-bid situation, many of your lenders had stopped originating VA loans. These institutions that have stopped originating, are they concentrated in one part of the country?

Mr. **WYNN**. They are primarily concentrated in the State of Oklahoma and in some areas in the State of Texas. They are primarily concentrated in the oil belt States, where there have been such drastic and terrible losses to lenders, where practically every VA foreclosure becomes a no bid.

Ms. **KAPTUR**. Finally, Mr. Muffley, I wanted to ask you, what is the progress you're having in attempting to minimize the effects of the new credit underwriting standards?

Mr. **MUFFLEY**. We have had several discussions with VA and we're still in the discussion process. We understand the reason for the underwriting standards and that in many cases they're needed. We are having trouble with some of the regional aspects of the underwriting standards. We have had States such as Idaho lumped into the same category as States such as California, as far as deriving income for individuals. This is creating a very big problem, when you've got a State like Idaho that is 46th in income per capita in the U.S., and California, which is on the higher end. Of course, you're going to end up with a much higher ratio. So I think this is the area that is our main concern right now in dealing with the VA.

Ms. **KAPTUR**. To each of you, as I asked the previous panel, in looking at the world in the way that each of you do, could you identify for me the most important thing you think this subcommittee should do to address the multitude of issues you have identified here this morning? What would you feel the worst about if we didn't act later this year? What would be the most important thing we could do to solve some of the problems you have identified?

Mr. **WYNN**. I think the most important thing you can do is to reevaluate the purpose of the VA Home Loan Guaranty Program in terms of whether it's an entitlement or whether it is not. If it is an entitlement program, then the rules need to be made to make it entitlement, not a credit risk to the lender, or a credit risk on behalf of the veteran. Congress needs to address whether they want to continue the VA Home Loan Guaranty Program as an entitlement. If so, they need to change their position or change the position of the regulations that exist today back to an entitlement program.

Ms. **KAPTUR**. Thank you.

Miss Wiseman.

Ms. **WISEMAN**. First of all, I would have to agree with that statement. But I think one of the critical things for the program is addressing the issue of the loan guaranty maximum, perhaps freeing it, so that those in high-cost areas have more ability to use the program.

Mr. **MUFFLEY**. I've got to answer that question both as a veteran and as a member of the National Association of Realtors.

I fully agree with Mr. Wynn. This program started out as an entitlement program and should remain an entitlement program. This is our Government's way of saying "thank you" to the veteran. I don't think you want to take that away from them.

Ms. **KAPTUR**. Again, I want to thank you for being here. Really, your testimony is outstanding. I appreciate your being here today.

We may be submitting some additional questions to you in writing, if that is all right. Thank you again for waiting. I apologize for the lateness of the hearing.

Mr. MUFFLEY. Thank you.

Ms. KAPTUR. Our final panel is Mr. Paul Egan, Deputy Director of the National Legislative Commission, the American Legion, accompanied by Mr. Emil Naschinski, Assistant Director; Mr. Dennis Cullinan, Assistant Director, National Legislative Service, Veterans of Foreign Wars; and Mr. Stephen L. Edmiston, Deputy National Legislative Director, Disabled American Veterans.

I want to thank you gentlemen for waiting. I appreciate the time you have spent this morning in listening to all of this. I often wonder, as the chair of a committee now, whether we should let witnesses know that they're fourth or fifth on the agenda or whether you really enjoy sitting and listening to everyone else. I have no idea. So if you want to give me feedback later, I would appreciate it. You have given up your breakfast and your lunch hour now.

Mr. Egan, why don't we start with you, if that's all right, and then proceed in order.

STATEMENTS OF PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION; EMIL NASCHINSKI, ASSISTANT DIRECTOR, NATIONAL ECONOMICS COMMISSION, THE AMERICAN LEGION; DENNIS M. CULLINAN, ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE U.S.; AND STEPHEN L. EDMISTON, DEPUTY NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

STATEMENT OF PAUL S. EGAN

Mr. EGAN. Thank you very much.

Emil Naschinski, our Assistant Director of the Economic Division of the American Legion, is here. We will divide the time available between us.

There are a couple of points I would like to make with regard to, first of all, reforming the program to a small extent. Currently, if an individual has a mortgage, and he sells the asumption on the mortgage, that veteran retains liability for any default on that mortgage. We feel that's inappropriate. We think that, instead of that, the person purchasing the assumption should sign some sort of agreement that he then becomes totally responsible for the mortgage.

In that regard, we have surveyed a sampling of cases that have been brought before the Board of Veterans Appeals arising out of the regional offices. What we find is a fairly universal treatment of these cases. The claims are claims for a waiver of indebtedness. Typically, the Board of Veterans Appeals finds that the veteran in question is not materially at fault for the indebtedness, but the BVA then sends the case back to the originating regional office with instructions to decide the case consistent with Section 3102(b) of title 38, which outlines the standard of equity and good conscience. What the regional office does then is to secure a financial statement from the veteran in order to decide the claim.

The way it works in fact is, if the veteran can afford to pay the indebtedness, the veteran, in effect, is guilty; if the veteran cannot pay the indebtedness, then he is innocent. We don't think that is a proper standard to be utilizing, especially since the Board of Veterans Appeals had previously found and usually does find that the veteran is not materially at fault.

In the extreme, you can imagine a circumstance where an individual had originally taken out a VA-guranteed mortgage, sold the assumption to another individual who sells the assumption to a person who defaults. Under the circumstances, why should the originating veteran remain responsible? We find that to be inappropriate and deserving of change.

A couple of remarks about homeless veterans. I think it is important to understand who they are. We typically think of the homeless as being the skid row bum, the alcoholic, the drug abuser, the mentally ill. But I think it's also important, particularly now, to understand that there is a new infusion of homeless individuals that are being added to the population that don't fit the typical mold. These, in our judgment, are a result of the vast changes in this particular economy, from a heavy industrial manufacturing economy to a service economy.

There are individuals, for example, whose jobs are lost or who are laid off, and they are simply unable to replace those jobs with jobs with incomes commensurate with what they had before. These individuals are increasingly among the homeless simply because they can't afford housing.

As we have seen across the country, cities have redeveloped their inner-city areas, building sporting facilities, shopping malls, condominiums, the whole variety. But these same cities have taken virtually no responsibility for replenishing the stocks of low-income housing that are destroyed by the development of the inner cities. One thing that you might want to consider as a member of the Banking Committee to remedy that would be to tie eligibility for Urban Development Action Grants to some sort of commitment on the part of individual cities that receive them, to redevelop a stock of low-income housing. That is kind of far afield of this particular committee's considerations here today, but I think it is something that needs to be addressed.

We have testified on the issue of homeless veterans on three occasions in the last 12 months. It seems there is an overwillingness to assume that somehow the total responsibility for homelessness in America today is a Federal responsibility while, in fact, it's a shared responsibility. The Federal Government can do some things to abate the problems, to respond to the emergency circumstances that we have. But it seems to me that the States and localities have pretty much ignored their responsibility. The deinstitutionalization of the mentally ill is a classic example.

After having said that, I would turn the microphone over to Emil Naschinski for the balance of our time.

STATEMENT OF EMIL NASCHINSKI

Mr. NASCHINSKI. Thank you, Paul.

It is a real pleasure to be here this afternoon, Madam Chairwoman, to share with you the views of the American Legion on the important issues that are currently before this subcommittee.

The first item I would like to discuss this afternoon is the problem of the user fee. In 1983, Congress imposed a ½ percent user's fee on all VA loans made to nondisabled veterans. The proceeds of this fee were to go to the Treasury to help reduce the national deficit. A year later, the user's fee was raised to 1 percent, and the proceeds were redirected from the Treasury to the Loan Guaranty Revolving Fund. The purpose of this change was to defray the administrative costs of running the program.

Every fiscal year since 1984 the administration has proposed raising the user's fee. The American Legion, which opposed to the user's fee from the beginning, has fought this proposal. To us, the user's fee is nothing more than a form of taxation. A tax, which has been placed on an earned entitlement. In our opinion, those who are entitled to use this program have already paid a very dear price for that eligibility.

It is also our view that the user's fee defeats the purpose of the program by creating a disincentive for its use. When the veteran purchases a home, he or she has the option of either paying the fee up front at the time of sale, or including it in the total loan amount and amortizing it over the life of the loan. In either case, lower-income veterans and first-time home buyers are often shut out of the housing market because they can neither pay such a fee up front, nor can they afford the increase in their monthly payments that this fee can represent.

As you well know, Madam Chairwoman, the legislation that authorized the user's fee is due to expire on September 30 of this year. While the American Legion appreciates your interest in this matter, and the fact that you have introduced legislation that would prevent future increases in the user's fee, we nevertheless want to see it terminated. Barring that, we would favor further exemptions for those who need the program most, and those people are low-income veterans and first-time home buyers.

The second thing that I would like to discuss this afternoon has to do with a proposal that was recently made by the administration to amend subsection 1803 of title 38, U.S.C., to allow veterans to negotiate their interest rate with the lender. Under the current provisions of law, the interest rate on VA loan guarantees is set by the Administrator of the Veterans' Administration. This rate, it should be noted, is the maximum interest rate that may be charged.

Madam Chairwoman, there are some factions within the admnistration that advocate getting the Federal Government out of the credit market. It would appear that one means of attaining this end is to circumvent the purpose of the VA's loan guaranty program and thereby make it unattractive to veterans.

The American Legion believes that if the administration's proposals were to be adopted, the no-down-payment feature of the VA home loan program could be seriously jeopardized. We also feel that, in order for a veteran to negotiate a favorable interest rate, it would no doubt be necessary for that veteran to make a sizeable down payment. If this were the case, there would be little or no incentive for the veteran to use the program.

Currently, 72.8 percent of all primary VA home loans are made with no down payment. Once lack of participation became an issue, it would be very easy for the administration to justify doing away with the VA loan guaranty program.

Finally, I would just like to add a couple of comments to what Mr. Egan has said about the homeless veteran. As you know, there have been a number of interesting proposals which have surfaced in the last few months, and some of those came out of the hearings held by this subcommittee earlier this month. One suggested using JTPA funds to train unemployed veterans by rehabbing some of the homes in the VA's inventory that are in need of such work to make them marketable. While we are not prepared at this point in time to endorse this proposal, we do feel that it is worth consideration and we would urge this subcommittee to investigate that further.

Madam Chairwoman, that concludes our remarks. We will be happy to answer any questions you might have.

[The prepared statement of the American Legion appears at p. 344.]

Ms. Kaptur. Thank you very much.

Mr. Cullinan.

STATEMENT OF DENNIS M. CULLINAN

Mr. Cullinan. Thank you, Madam Chairwoman.

If I may, I would begin with an apology. My written statement does not reflect that this subcommittee is now in the very capable hands of a Madam Chairwoman. I wish to apologize for that. It's a rather embarrassing oversight.

Ms. Kaptur. We're just happy you came.

Mr. Cullinan. Thank you for the privilege of appearing here today. In the opinion of the Veterans of Foreign Wars, the VA home loan program is one of the most successful and beneficial programs available to veterans. Approximately 20 percent of our country's population of about 220 million have their homes thanks to the VA program. It is just an enormous boon to the economy of the nation and the veteran population.

We would begin by addressing the first item which appears on today's hearing agenda. This legislative proposal would require new underwriting on VA loans which are assumed when a veteran sells his home, thereby releasing the veteran from future liability. Few things can be more disconcerting or, for that matter, detrimental to a veteran who has sold his or her house to a buyer who assumes the mortgage, from which the veteran has not obtained a release of liability, and the buyer fails to make payments. Since the veteran continues to be primarily responsible on the mortgage, in the event of foreclosure he or she is billed by the VA for any deficiency after the sale of the property. Thus, a veteran is unfairly penalized and in some circumstances even financially ruined because of the monetary misadventure of another party. Consequently, the VFW looks favorably upon this legislative initiative.

Another issue we will address today is the proposed extension of the 1 percent user fee for 3 years. We believe this 1 percent fee should, in fact, be reduced or, better yet, eliminated. For this reason, we would argue that the 1 percent user fee should not be extended for a protracted period of time but, instead, should be reviewed annually with a view toward eliminating it.

Another proposal to be addressed here is increasing the loan guaranty from $27,500 to $30,000. The VFW is always supportive of legislation which would make the VA Home Loan Guaranty Program more attractive and available. We believe increasing the loan guaranty is a move in the right direction and we support this action.

Today's legislative agenda also contains a proposal to require a down payment on manufactured homes. The VFW does not subscribe to any legislative initiative which would make the VA Home Loan Guaranty Program for manufactured homes less attractive and available. A down payment requirement would discriminate against those purchasing manufactured homes and would effectively disqualify many veterans, especially younger and lower income individuals, who otherwise would have been expected to apply for and obtain such VA loans.

Madam Chairwoman, I have addressed in some detail our view on the fraud and so forth which is still taking place in this manufactured home industry. I won't go into that right now. Suffice to say that we believe the elimination of fraud and certain illegal pricing practices would go a long way towards remedying this problem.

[The prepared statement of Dennis M. Cullinan appears at p. 351.]

Ms. KAPTUR. Thank you.

Mr. Edmiston.

STATEMENT OF STEPHEN L. EDMISTON

Mr. EDMISTON. Thank you, Madam Chairwoman.

On behalf of the more than one million members of the DAV, I would like to say how very much we appreciate the invitation to appear here today. We would like to commend you and the subcommittee for this timely exercise of your responsibilities.

Since our written testimony has covered the various issues that are the subject of today's hearing, I am going to limit our oral remarks to the loan guaranty program.

First I would like to comment on the expiration of the 1 percent user's fee this September. As you know, this fee was originally established as a deficit reduction measure. At that time the DAV had serious reservations regarding the requirement of a veteran paying for the privilege of using an earned benefit entitlement. When that legislation was finally passed by the Congress, it did include a very specific exemption for all compensably disabled veterans and for certain surviving spouses. The DAV was very appreciative of that. Now, as the time draws near for the Congress to again consider a continuation of that fee, we must again express our same reservations of requiring a veteran to pay for the privilege of using a benefit.

However, if such an extension should move forward, we would strongly urge that the exemption for certain surviving spouses and service-connected disabled veterans be continued. But, we would also ask that that exemption also include noncompensably disabled veterans who are not currently exempted. Additionally, we would not favor making the user fee permanent.

Madam Chairwoman, numerous witnesses have come before the subcommittee expressing concern in a number of areas in the VA home loan program. Many have offered suggestions and recommendations that they believe will improve the program. The DAV, in its written testimony, has also offered a number of recommendations that we believe could also improve the program, both for veterans as well as the American taxpayer.

However, the DAV would like to caution the subcommittee with respect to the varied recommendations. The reason for our caution is our firm belief that any and all VA loan program enhancements must include authorization and funding for sufficient personnel to carry out those innovations. Without adequate numbers of personnel, most program improvements designed to assist veterans and to save taxpayer dollars would, in our view, be doomed to failure.

To emphasize our point, in fiscal year 1980 the VA Home Loan Guaranty Division of the Department of Veterans Benefits, nationwide, was staffed with 2,349 personnel, and closed 297,000 guaranteed and insured loans. During fiscal year 1986, 1,969 VA home loan guaranty employees closed 313,000 such loans. Now, this doesn't include the workload requirements of property management and other responsibilities of the VA home loan division. As we have heard today, property management has developed into a huge responsibility.

It is no wonder, then, that you and our organizations receive numerous complaints from veterans regarding the timely delivery of service. A prompt response to a veteran whose VA mortgage is in arrears or default is certainly critical in the effort to try and save that mortgage.

At this point I would like to comment on several of the legislative recommendations.

With respect to the legislation that would increase the loan guaranty from $27,500 to $30,000, the DAV has no official position. However, it appears that, in light of VA statistics for fiscal year 1986, where the average loan amount of homes purchased with a VA guarantee exceeded $70,000, that an upward adjustment would be appropriate. Should the subcommittee favorably consider such an adjustment, the DAV also strongly recommends a similar adjustment in the VA's specially-adapted housing program for disabled veterans under section 802(a), as well as for the VA's housing assistance program under 802(b).

The decisions that the subcommittee make directly affect the future of the VA's home loan program. We are confident that you, Madam Chairwoman, and the other members of the subcommittee, will take the right action to benefit all Americans, and particularly the veterans who benefit from the program. Again, we thank you so much for the opportunity to be here today.

[The prepared statement of Stephen L. Edmiston, with attachment, appears at p. 360.]

Ms. KAPTUR. Thank you, Mr. Edmiston.

How would you comment on Mr. Wynn from the Mortgage Bankers Association, his comments about the restricted staffing levels at the VA, which you pointed out in your testimony—and we thank you for those numbers—some of his suggestions that more of the foreclosure functions and so forth, the appraisals, be done by the lending community through certified lenders. Do you think that would work?

Mr. EDMISTON. Well, I would have to study that. That is the first I have heard of it, this afternoon. But I think, clearly, the staffing levels within the home loan program have brought forth some of these suggestions to move some of the functions that the VA currently does out to the bankers and others who are involved in the program.

Ms. KAPTUR. Right. We also ran into those problems with the appraisers.

I think Mr. Egan wanted to say something on that.

Mr. EGAN. Yes. First of all, to the extent that lenders were able to complete the appraisal function instead of the current requirement where the VA has to assign an appraiser and be involved in the process, to the extent it would shorten the process of obtaining the appraisal and going forward with closing the mortgage, it would be a benefit to the veteran. However, to the extent that the VA's involvement and the VA's assignment of an appraiser constitutes a safeguard against possible abuses by unscrupulous lenders, it deserves very careful consideration before moving forward on that particular proposal.

Ms. KAPTUR. I agree. I was sitting here asking myself the question who does the certification?

Mr. EGAN. Were appraisers more professional and universally licensed, it might be a different situation. But that is not the case and it deserves—

Ms. KAPTUR. Even with notification of veterans of the condition of a loan, most of the lending community doesn't do anything extra. So I guess I would worry about giving more responsibility out there, unless I could figure out a way that you would really guarantee the consumer rights of the veteran.

Mr. Cullinan, did you want to say something on that?

Mr. CULLINAN. Yes. I would concur with Mr. Egan.

I would add to that, too. I believe Mr. Wynn said something to the effect of the mortgage banker community assuming some of the clerical functions. I could see where that would be a viable possibility. But as far as taking over the VA's authority, such as in the situations of appraisals, of safeguarding the veteran's investment, I can't imagine that that would be a good idea at this point in time, especially considering the fact that there is no standardization with appraisers.

Ms. KAPTUR. I wanted to ask Mr. Egan, you commented a little bit about manufactured housing—I think in your written testimony. What I wanted to ask you about was the high delinquency rate in manufactured housing. Why are we having this difficulty out there? And just off the top of your head, do you support the down payment proposal that some of the other organizations have made?

Mr. EGAN. My inclination is—and again, I haven't looked at this all that closely—but my inclination would be to agree with Mr. Cullinan, that if you do something to solve the problems of the abuses, the kickbacks, the cozy relationships between manufacturers and dealders, then you might very well solve the problem.

As to why there are so many foreclosures in manufactured housing, I would just simply have to venture a guess. I mean, we're talking about individuals who are purchasing properties that are on the lower level of the home-buying spectrum. Therefore, I would further guess that there is some substantial possibility of their being qualified for mortgages that they can't afford.

Ms. KAPTUR. Mr. Edmiston, in your testimony you talk about a legislative remedy being necessary to identify and assist veterans who have lost their homes through foreclosure and were the victims of fraudulent schemes.

Do you want to elaborate on that a little bit?

Mr. EDMISTON. I think that follows up on the question regarding the down payment on manufactured homes. From what we have seen, and from what information has been made available by the VA's IG in the investigation of some of these kickback schemes between manufacturers and dealers, that, in fact, veterans were caught in the middle. In other words, the veteran took on a mortgage that was probably at the far end of the spectrum of what he could afford, but it may not have gotten to that point had, in fact, it not been for the hidden cost of the kickback built into the purchase price of that manufactured home.

So our feeling is that this veteran who goes into foreclosure and his manufactured home was part of the scheme, where there was the built-in kickback, there should be some mechanism to allow some sort of relief of the veteran's responsibility of the indebtedness that has occurred as a result of the foreclosure.

I don't know if I made that very clear or not.

Ms. KAPTUR. I still have questions.

Mr. EDMISTON. Okay.

Ms. KAPTUR. In view of the time, let me ask you all one final question.

If you could just set aside the origination fee issue, assuming we can take care of that, if you were to make one improvement to the VA Home Loan Guaranty Program—and I have already heard recommendations as to remembering that it's an entitlement program—beyond those recommendations, are there any other suggestions that you might have?

Mr. EGAN. It is a little difficult to be limited to one thing—

Ms. KAPTUR. I know, I know.

Mr. EGAN. I would like to recommend a few things.

Ms. KAPTUR. Where would you be most disappointed were no action taken?

Mr. EGAN. I think there's a few things that should be taken together. I mean, we can't do one thing this year, one thing next year. Otherwise, I think the program is going to continue to be plagued with the same kinds of problems.

The first thing is to rebuild the home loan portfolio. The second, of course, would be to eliminate the user fee. Next, to provide the VA with the resources they need to market their inventory of foreclosed properties as quickly as possible. They're losing a tremendous amount of money on the possible resale of those properties, just because of the time it takes them to unload those properties. And there needs to be an increase in the guarantee to make the program consistent with current economic realities.

Ms. KAPTUR. I know we're going to move on that.

Mr. Cullinan.

Mr. CULLINAN. In one broad response, I would say to provide the VA with the authority and the staff to reduce the number of loans that go into default. And in the event there is a default and a foreclosure, that they are provided with the authority and staff to expedite the foreclosure, thus saving the veteran and—

Ms. KAPTUR. So it would be forebearance authority with the staffing to back it.

Mr. CULLINAN. And if it goes to the point where it must go to foreclosure, then give them the authority and the wherewithal to expedite that foreclosure, saving the veteran and the program money.

Ms. KAPTUR. What do you think about some of the suggestions for a temporary mortgage assistance program—I think the gentleman from Texas talked about that.

Mr. CULLINAN. It was hard for me to grasp that proposal in its entirety as I sat here. It seems that it was directed more towards forebearance, directed toward the lender, and not so much the veteran. I'm speaking off the cuff now. I would have to analyze his proposal in somewhat greater detail.

I would think that a mechanism should certainly be put in place to help the veteran.

Ms. KAPTUR. If any of you organizations would want to take a look at the existing authority that is over at FHA,—Gloria tells me there was a bill introduced here a couple of years ago, which never made it through the Senate, dealing with emergency foreclosures, dealing with veterans. We could get the number of that bill. But we may want to take a look at that, and then target it to those areas that are most affected.

I am sitting here thinking about what would be the triggering mechanism. I'm not sure. But any of your suggestions along those lines would be appreciated.

Mr. Naschinski, did you want to make a comment here?

Mr. NASCHINSKI. Yes, Madam Chairwoman. There is one thing I would like to add to the suggestions that Mr. Egan has made; that is, legislation that should come out of this subcommittee which would deal with the problem that he discussed earlier, and that is the problem of the veteran who allows a buyer to assume that loan and then later, often 5 or 10 years later, they are notified that they owe the Government several thousand dollars. We really feel this is an inequity and we would like to see legislation that would require the person who assumes the loan to also assume the complete responsibility for that in the event of foreclosure.

Ms. KAPTUR. We have heard that consistently through the testimony this year.

Mr. EDMISTON. I would just like to add that, again, we feel very strongly about the need of providing sufficient funding and sufficient personnel over and above what the Department of Veterans

Benefits currently has. We really think that many of the problems that have developed in recent years could be addressed by just increasing personnel levels, who can take care of some of these problems in a timely fashion, and then maybe get on to looking at some legislative recommendations to incorporate within that framework that might improve the program even more.

Ms. **Kaptur**. Well, I hope that as you go back to your respective organizations you might think with me on just amending the title of the VA Home Loan Guaranty Program. If you've got a favorite phrase, in order to bring attention to parts of the operation that tend to get ignored just because of staffing restrictions and so forth. Let me know if you like the words "renovation, repair, rehabilitation or modernization". I would certainly welcome any suggestions that might come from the respective veterans' organziations.

Again, thank you for your excellent testimony and for spending all this time today. The veterans of this country wouldn't be where they are if it weren't for you. So thank you.

The committee is adjourned.

[Whereupon, at 1:40 p.m., the subcommittee was adjourned.]

APPENDIX

MISS KAPTUR, CHAIRWOMAN
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

APRIL 9, 1987

OVERSIGHT OF VA HOME LOAN GUARANTY PROGRAM

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THE SUBCOMMITTEE WILL BE IN ORDER.

THIS MORNING MARKS THE BEGINNING OF OUR LEGISLATIVE AND OVERSIGHT HEARINGS ON THE VA HOME LOAN GUARANTY PROGRAM.

AS THE NEW CHAIRWOMAN OF THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS, I THINK IT IS IMPERATIVE TO LOOK AT THE PROGRAM FROM DIFFERENT PERSPECTIVES. I WANT TO FOCUS NOT ONLY ON RECENT CHANGES WHICH HAVE AFFECTED THE PROGRAM, BUT ALSO ON ITS STRENGTHS AND WEAKNESSES.

I WANT TO KNOW WHO USES THE PROGRAM, WHAT IS THE AVERAGE USER'S INCOME, IN WHAT AREAS OF THE COUNTRY IT IS MOST UTILIZED, AND WHAT ARE THE LOAN AMOUNTS BY REGION.

IN ADDITION, I WANT TO KNOW ABOUT THE OPERATION AND MANAGEMENT OF THE PROGRAM. HOW CONSISTENT IS THAT MANAGEMENT WITH THE BENEFICIAL INTENT OF THE LAW?

THE LARGE INFLUX OF VA HOME LOAN GUARANTY APPLICATIONS LAST YEAR COUPLED WITH REDUCED STAFFING LEVELS RESULTED IN A SERIOUS DETERIORATION OF QUALITY AND TIMELINESS IN DELIVERY OF SERVICES TO THIS PROGRAM.

FORECLOSURES CONTINUE AT A HIGH LEVEL. ALTHOUGH THE VA'S EXPERIENCE IS COMPARABLE TO FHA AND CONVENTIONAL LENDERS, I WISH TO EMPHASIZE THAT THE VA PAID 29,438 CLAIMS IN CALENDAR YEAR 1985 AND 34,750 IN CALENDAR YEAR 1986. THIS IS AN INCREASE OF 18.1%.

IT IS THEREFORE MY INTENT TO LOOK INTO THE POSSIBILITY THAT INCREASED SERVICING ON LOANS COULD RESULT IN FEWER FORECLOSURES. I WANT TO LOOK INTO THE VA'S CURRENT PROPERTY ACQUISITION PROCEDURES AND SUBSEQUENT SALES POLICIES.

PROPOSALS LAST YEAR HAVE AFFECTED CREDIT UNDERWRITING STANDARDS AND WE WILL BE STUDYING ITS IMPACT. VA APPRAISALS WERE ALSO ADDRESSED LAST YEAR IN AN EFFORT TO ENSURE THAT THE APPRAISAL SYSTEM IS EFFECTIVE, RELIABLE AND TRUSTWORTHY. THE SUBCOMMITTEE ON COMMERCE, CONSUMER AND MORTGAGE AFFAIRS CHAIRED BY CONGRESSMAN BARNARD ISSUED A REPORT LAST YEAR ON THE QUALITY OF VA APPRAISALS.

I COMMEND THE GENTLEMAN FOR HIS COMPREHENSIVE REPORT AND LOOK FORWARD TO HEARING HIS REMARKS LATER THIS MORNING.

I ALSO LOOK FORWARD TO HEARING TESTIMONY FROM ALL OF OUR OTHER WITNESSES ON THEIR EXPERIENCES WITH THE VA HOME LOAN GUARANTY PROGRAM AS WELL AS THEIR RECOMMENDATIONS.

LASTLY, I WANT TO ADDRESS THE ISSUE OF HOMELESS VETERANS. THEIR PROBLEMS ARE COMPLEX. WE WILL BE HEARING TODAY FROM THE HONORABLE LANE EVANS ON THIS ISSUE AS WELL AS THE METROPOLITAN WASHINGTON UNION OF THE HOMELESS AND ANOTHER INDIVIDUAL REGARDING THEIR NEEDS.

I WAS PLEASED TO NOTE IN MONDAY'S WASHINGTON TIMES THAT FOR THE FIRST TIME IN ITS HISTORY, THE VETERANS ADMINISTRATION IS IN THE PROCESS OF ESTABLISHING SHELTER PROGRAMS. THE VA WILL BE TESTIFYING IN ANOTHER HEARING ON APRIL 22 OUTLINING THEIR PROPOSED PLANS. AT THAT TIME, THE SUBCOMMITTEE WILL GO INTO OTHER PERTINENT ISSUES AFFECTING THE PROGRAM.

OUR FIRST WITNESS THIS MORNING IS THE HONORABLE DOUG BARNARD.

MARCY KAPTUR
MEMBER
9TH DISTRICT, OHIO

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URBAN AFFAIRS
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Congress of the United States
House of Representatives
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April 16, 1987

Hon. Thomas K. Turnage
Administrator
Veterans Administration
810 Vermont Avenue
Washington, D. C. 20420

Dear Mr. Administrator:

Last week, my Subcommittee began its legislative and oversight hearings on the VA Home Loan Guaranty Program. At these hearings, witnesses commented on various aspects of the program such as appraisals, counseling and servicing of delinquent loans, and the rehabilitation of properties acquired through foreclosure proceedings. Enclosed are copies of some of the statements we received. One of the overriding concerns raised at the hearing was whether the VA, 40 years after the passage of the guarantee program which was initially a guarantee program for new housing sales to veterans, is properly structured to address the special problems of an aging housing inventory, credit counseling and forebearance for veterans experiencing financial stress, appraisal practices, and the special problems relating to homelessness among veterans. I would appreciate your analysis and response on the specific recommendations contained in their testimony and how their testimony relates to your operation.

It would be helpful if you could submit your report on these proposals for the record prior to our April 22 hearing. However, I recognize the time frame under which you are working and would be happy to receive your formal written comments on any items about which you may not be able to provide an answer by the date of the hearing.

I am particularly interested in:

(1) Congressman Barnard's comments on the impact of fraudulent appraisals on the VA home loan guaranty program and whether or not it is true that out of your list of 6,000 fee appraisers, 1,200 of these were suspended or disciplined for incompetency or unethical behavior in Fiscal Year 1986. If true,

what has the VA done to address this problem and what are the disciplinary trends so far this year? Is the VA considering licensing of appraisers? What has been the experience of the VA participation in the interagency task force in developing solutions to the appraisal problems? How exactly are appraisers selected and are there changes that could be made in that process to alleviate these problems? (See statement of Hon. Doug Barnard, Jr.--Page 3).

(2) Your reaction to Congressman Sunia's request for "the establishment of a direct home loan program for the territory" in light of the difficulties experienced by veterans on American Samoa in obtaining VA backed mortgages. Also, your comments on how any other arrangements could be developed that might serve these veterans. (See statement of Hon. Fofo I.F. Sunia--Page 2).

(3) Your reaction to the recommendation mentioned in Congressman Evans' testimony (Page 3), "to assist homeless veterans secure long term shelter utilizing properties acquired through foreclosure by the Veterans Administration." Specifically, a status report on the progress of negotiations with groups representing homeless veterans to use some of the foreclosed inventory for shelters in Philadelphia.

(4) Your reaction to using the Veterans Jobs Training Act to rehabilitate foreclosed properties and the possibility of making acquired properties available for such purposes at reduced prices. Specifically, I would like your comments on the proposal of URI to utilize its training program, "supported by Veterans Job Training Act dollars, to work cooperatively with the Veterans Administration in Washington, D. C. and their regional offices, to renovate and rehabilitate these properties. For those who are unfortunate to be homeless by either circumstance or economics, we would suggest working on a sufficient number of properties in each community to provide temporary shelter for these citizens. Structure similar to the well known 'Ronald McDonald' homes throughout the country, this effort would require no new legislation, and in almost every instance, no additional funding--merely the assistance, cooperation, and rapidly a directive from the VA to effectuate such an effort. For the remaining populace, who are pre-qualified to purchase properties, but who live today in substandard housing, a similar initiative, utilizing the same inventory should be considered. A major difficulty that has been faced by this particular group is the lengthy period of time that is required by the Veterans Administration to provide approval for a mortgage." (See statement of URI--Pages 2 and 3).

(5) Counseling, servicing and forebearance on delinquent loans. What are your comments on the specific recommendations on

counseling and forebearance made by the witness from Housing Opportunities. Your thoughts are also solicited on the following "shortcomings" in the home loan program found by the representative from Housing Opportunities:

"1. The Veterans Administration has no program equivalent to the FHA Assignment Program. Many veterans who purchased their home using VA benefits could have qualified for FHA financing and been eligible for a comprehensive program to deal with the temporary loss of income. The Veterans Administration should offer at least equivalent safeguards to foreclosure as the FHA and arguably should offer better programs.

2. The Veterans Administration is very inconsistent in providing counseling and forebearance agreements to delinquent mortgagors. The inconsistency exists between regional offices and within a regional Veterans Administration office depending on the loan servicer you work with. The consistency of information and options to foreclosure should be available to all veterans.

3. The Pittsburgh area is currently advertising over 300 Veterans Administration foreclosures for sale to veterans or non-veterans. Many times these homes are sold at far below their fair market value. This strategy, though successful in reducing Veterans Administration housing inventories, negatively impacts the property values of other neighborhood homes. (Has the VA ever analyzed the effect of such below-market-value sales on surrounding neighborhood properties? What is the average loss per foreclosure to the guaranty fund and the total yearly average loss to the fund?)

4. The extent of the Veterans Administration housing inventory coupled with the average loss per foreclosure should be looked at closely to determine if additional foreclosure prevention strategies should be developed. (What is the VA doing to develop such strategies?)

Housing Opportunities would encourage the Veterans Administration to consider participation in the HOPE Program as a cost effective way to provide additional needed services to Veterans Administration delinquent mortgagors." (See statement of Housing Opportunities, Inc.--Pages 3 and 4)

(6) The concentration of VA guaranteed mortgages and its impact on neighborhood stability as described by National Neighbors, Inc. If VA home loan guarantees are not now covered under the Home Mortgage Disclosure Act, should they be? I would like your reaction to the recommendation that "the VA produce an Impact Report with numbers of VA loans for each census tract, much along the same lines as the HMDA reports for regulated

lenders which have been submitted since 1975" as well as your comments on the additional statement of the witness "that the VA Loan Guarantee maintain an inventory of loans made by race and census tract. I further propose that, as soon as a neighborhood begins to resegregate at the same time that the VA is awarding a disproportionate number of minority loans, the VA should give pre-purchase counseling to applicants in that neighborhood to advise them of the full range of their housing choices. The VA should be particularly conscious of informing minority veterans of properties in predominantly white communities, to which they are all too often denied access." (See statement of National Neighbors--Pages 2 and 3)

(7) Including rehabilitation funds in VA guaranteed mortgages. Would a demonstration program such as that offered by the Neighborhood Reinvestment Corporation be feasible and would the VA consider working with them on it? In fact, for any of these proposals, what would your recommendations be for their implementation? I direct your attention to the specific recommendations of the Neighborhood Reinvestment Corporation as follows:

"1. The NHSs would promote the effective use of VA loans to more properties of local concern. This would necessitate some flexibility in underwriting but more importantly, it would require VA to build rehab into loans or allow combination loans with the NHS.

In an effort similar to a joint NHS-CalVet project in San Bernardino, California, the VA could join in the sponsorship of an owner built project, enabling a group of veterans' families to build their own homes under NHSs' supervision, substantially reducing the price of the home to the participating families.

2. In a delinquency counseling demonstration, the VA could allow NHSs to enter earlier, perhaps by direct contact with the borrowers at 30 days delinquency. Assigned VA staff could develop a close working relationship with the NHS and assist it in understanding and using the full flexibility of forebearance guidelines.

3. In a pilot effort to turn VA owned properties into neighborhood assets, the VA could allow direct purchases and/or options on houses at negotiated prices for the purpose of resale to homeowners or long-term use for lower income rental housing. The NHS could supply rehab counseling and secure rehab financing to make the deals work. State and local governments as well as FHS are involved in similar relationships with nonprofit organizations. (See statement of Neighborhood Reinvestment Corporation--Pages 4 through 7)

(8) Recommendations of the American Mortgage Company who are scheduled to testify on the 22nd as well. (Pages 5 and 6)

Finally, I would appreciate receiving a list of foreclosed properties in Toledo, Ohio and Chicago, Illinois, grouped according to dates acquired, as well as details of the VA's disposition plans for these properties.

Sincerely,

Marcy Kaptur

MARCY KAPTUR
Member of Congress

MK/ss

STATEMENT OF CONGRESSMAN LANE EVANS

BEFORE THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

THE HONORABLE MARCY KAPTUR, CHAIRMAN

APRIL 9, 1987

Madam Chairman,

Thank you for allowing me this opportunity to testify before your subcommitte hearing on homeless veterans. Last week you were the first witness to testify before the Oversight and Investigations Subcommittee, the first hearing held by the subcommittee since my election as its Chairman. I appreciate this chance to reciprocate and testify before your Subcommittee today. I also want to state for the record that the interests and concerns of our Nation's veterans will be well served by this Subcommittee under your leadership and I look forward to continuing to work with you in the future on behalf of all veterans. I sincerely thank you for your testimony and important contribution which you made and, again, thank you today for addressing an issue of great importance to many of our nation's veterans.

There are many issues which will be addressed during today's hearing and future subcommittee sessions, but I will limit my remarks to the subject of homeless veterans. Earlier this year I visited a number of facilities for the homeless in Washington and Chicago. The number of homeless veterans there heightened my awareness of the extent of this problem.

We do not know categorically how many homeless veterans there are in America today but it is estimated that one out of every three homeless individuals in America is a veteran who has served our country with honor--served with the promise that in return for the sacrifice there would be services and programs available to them later. A support system for the homeless veteran does exist, but no concerted effort has been made to bring all of these elements together into a partnership for the homeless veteran. The Federal government has not recognized the homeless veteran as a unique problem--people who often do not have the wherewithal to seek out the help they need.

As a nation we can't turn our backs on these veterans during their time of need. Perhaps it is easy for some to close their eyes, their ears, and their hearts to the homeless veteran. This Committee on Veterans Affairs must not. We must take a more aggressive role in finding a solution to this problem.

Many factors contribute to the homeless problem among veteran. Homeless veterans are victims of unemployment (Young veterans suffer from unemployment rates from two to eight percent greater than non-veterans of the same age.), deinstitutionalization, the housing crunch, and drug and alcohol abuse--the same problems of other homeless people. Also, the tragedy of the homeless veteran is compounded by the fact that a significant number of them suffer from Post Traumatic Stress Disorder (PTSD). Unfortunately, homeless veterans receive little, if any, treatment for PTSD.

Food, temporary shelter, clothing, medical care, and other essentials must be made available in response to the acute needs of homeless veterans. But in addition to temporary aid, there must also be longer term assistance to help the homeless veteran secure permanent shelter, gainful employment, needed education and training, and social support services.

A program to assist homeless veterans secure long term shelter utilizing properties acquired through foreclosure by the Veterans Administration and other lenders should be given our support. These properties could be made available on a no or low-cost basis to agencies of local government or private not-for-profit organizations for renovation and rehabilitation. Homeless and unemployed veterans could learn valuable work and work-related skills being employed in the rehabilitation or renovation of these properties. Such a program could assist homeless veterans and their dependents rebuild their lives while rebuilding their homes.

Such a program is now being considered in Philadelphia and would be consistent with the legislation to aid homeless veterans that has been introduced by Senator Cranston. It should be noted, however, that S. 477, the Homeless Veterans Assistance Act of 1987, won't dramatically eliminate homelessness overnight, nor will all homeless veterans be benefited immediately, but such a program can and will help--it will be a modest starting point for addressing this problem of great concern.

The homeless veteran is still fighting a war, but the battleground has changed. Instead of dodging live ammunition in the jungles of Southeast Asia or the plains of Europe, the homeless veteran tries to avoid the brutality of our city streets. The homeless veteran is not equipped to fight this battle. Society needs to provide the homeless veteran with the reinforcements to win this personal war. In a nation which stresses duty to one's country, it is time we perform our duty to those veterans who upheld the honor of this country and now need to regain some honor of their own.

Marcy, I know that you have a strong committment to assisting the homeless veteran. Your continued efforts in conducting hearings on this important issue will bring us closer to solutions for homeless veterans. I again commend you for conducting this hearing today.

For our nation's homeless veterans, I believe we can do more. I believe we should do more. I believe we must do more. I hope the members of this Subcommittee share these beliefs. Thank you again for your attention.

STATEMENT OF MR. NATHANIEL LOWE, EXECUTIVE VICE PRESIDENT
METROPOLITAN WASHINGTON UNION OF THE HOMELESS
BEFORE THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE HOUSE VETERANS AFFAIRS COMMITTEE
THE HONORABLE MARCY KAPTUR, CHAIRMAN

Madam Chairman and Members of the Subcommittee:

I am pleased to appear before your Subcommittee hearing on the Veterans Administration Home Loan Guaranty Program to give you my views and concerns regarding homeless veterans.

I am a veteran of the Viet Nam War, having served in the U.S. Army (on rescue missions) from 1969 to 1972. I am also a member and the current Executive Vice President of the Metropolitan Washington Union of the Homeless.

The Metropolitan Washington Chapter of the Union of the Homeless was founded on March 29, 1986 in response to the urgent need for organization among the homeless, unemployed and poor working people of the Metropolitan Washington, D.C., Northern Virginia and Suburban Maryland area. The Union was established by and for homeless people and the fundamental purpose of the Union is to provide a forum through which the homeless can collectively speak for ourselves and to expose and eliminate the root causes of homelessness and poverty. We feel that it is imperative that you hear the perspectives of those of us who confront, first hand, and **not be choice,** the harsh reality of homelessness. Our reality tells us that much of the current legislation and national policy on homelessness, particularly homeless veterans, falls far short of addressing the needs of our people for jobs, job training, permanent, affordable and decent housing and accessible, quality health care.

The overwhelming majority of homeless people are homeless because they are poor, jobless, without adequate income supports, and/or have little or no access to the range of services required to help them stabilize their lives. I have been involved in the struggle for the homeless for 15 years and have suffered from homelessness myself. I feel that the veterans perspective and his/her needs do not greatly differ from that of the homeless population as a whole. However, it is a sad commentary on our nation to admit that a significant percentage of all homeless are, in fact, veterans (with a large number having served in Viet Nam). To a great extent, I feel that veterans have been ignored by the system, struggling along without an awareness of their eligibility for benefits that they have rightfully earned and deserve.

The Union of the Homeless does not advocate a need or desire for increased numbers of shelters to accomodate the homeless because shelters alone are not helping people find jobs and long-term housing. I strongly believe that homeless people should be allowed to run programs to help each other get back on solid financial ground. The Union, in principle, opposes the concept of emergency shelters for the homeless and wants to create permanent homes where people can stabilize their lives, seek employment, job training and adequate health care.

Our proposal for the use of foreclosed homes owned by the Veterans Adminstration (VA) is currently being considered by the District of Columbia (D.C.) government. The proposed program would make these vacant properties available on a low-cost basis to the local government for renovation and rehabilitation. The District would work as a conduit for receiving the properties and passing them on to the Unions, which acts as a property manager. Coordination among federal financing and housing agencies, District housing programs and private business will make the program function. We have continued to facilitate discussions between the VA and the District regarding this project. I would like to commend the Director of the VA's D.C. Regional Office for their support of our efforts with the local government. I am very pleased with the progress we have made thus far, however, we have a long struggle ahead to reach our goals.

As a veteran who proudly served his country, I appreciate your providing a forum in which this very critical matter can be discussed. I would additionally encourage your participation and support for legislation which seeks to address the concerns of all homeless and which stabilize and develop people's lives by promoting real opportunity, dignity, self-determination and independence. Thank you.

STATEMENT OF
HON. DOUG BARNARD, JR., CHAIRMAN
SUBCOMMITTEE ON COMMERCE, CONSUMER, AND MONETARY AFFAIRS
COMMITTEE ON GOVERNMENT OPERATIONS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
ON
VETERANS ADMINISTRATION HOME LOAN GUARANTEE PROGRAM
APRIL 9, 1987

MADAM CHAIRWOMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM EXTREMELY PLEASED TO APPEAR BEFORE YOU THIS MORNING IN CONNECTION WITH YOUR REVIEW OF THE VA'S HOME LOAN GUARANTEE PROGRAM. MY TESTIMONY ADDRESSES A NARROW, BUT I BELIEVE IMPORTANT, ASPECT OF THAT PROGRAM -- THE ROLE OF APPRAISALS IN SAFEGUARDING VA'S EXTENSIVE LOAN GUARANTY COMMITMENTS.

LATE LAST YEAR, THE COMMERCE, CONSUMER, AND MONETARY AFFAIRS SUBCOMMITTEE OF GOVERNMENT OPERATIONS, WHICH I CHAIR, COMPLETED A YEAR-LONG INVESTIGATION AND ISSUED A REPORT ON ABUSIVE APPRAISAL PRACTICES AND THEIR IMPACT ON FEDERAL PROGRAMS. THE REPORT CONCLUDED:

> "THAT FAULTY AND FRAUDULENT REAL ESTATE APPRAISALS HAVE BECOME AN INCREASINGLY SERIOUS NATIONAL PROBLEM; THAT THEIR HARMFUL EFFECTS ARE WIDESPREAD, PERVASIVE, AND COSTLY; THAT THEY HAVE CONTRIBUTED DIRECTLY TO THE INSOLVENCY AND PROBLEM STATUS OF HUNDREDS OF THE NATION'S FINANCIAL INSTITUTIONS AND HAVE HELPED CAUSE BILLIONS OF DOLLARS IN LOSSES TO LENDERS, PRIVATE MORTGAGE INSURERS, INVESTORS, AND FEDERAL INSURANCE AND GUARANTEE FUNDS."

THE VA'S LOAN GUARANTEE PROGRAM WAS PART OF THE WRECKAGE DESCRIBED IN OUR REPORT. THE SUBCOMMITTEE ESTIMATED THAT FROM 10 PERCENT TO AS MUCH AS 40 PERCENT OF VA'S $420 MILLION LOAN GUARANTY LOSS IN FY 1985 WAS CAUSED BY FAULTY OR FRAUDULENT APPRAISALS.

BEFORE I DETAIL THE SUBCOMMITTEE'S SPECIFIC FINDINGS WITH RESPECT TO THE VA, I'D LIKE TO TAKE A MOMENT TO DESCRIBE WHY APPRAISALS PLAY SO IMPORTANT A ROLE IN THE FINANCING OF REAL ESTATE TRANSACTIONS; AND WHY SO MANY FEDERAL AGENCIES HAVE A VITAL STAKE IN THE INTEGRITY OF THE APPRAISAL PROCESS. EACH YEAR, MILLIONS OF REAL ESTATE TRANSACTIONS -- BOTH RESIDENTIAL AND COMMERCIAL -- ARE FINANCED BY LOANS OR INVESTMENTS THAT ARE FEDERALLY INSURED, FEDERALLY GUARANTEED, OR THAT RECEIVE SOME OTHER FEDERAL BENEFIT:

-- THE FEDERAL DEPOSIT INSURANCE FUNDS STAND BEHIND THE MILLIONS OF REAL ESTATE LOANS MADE EACH YEAR BY OUR NATION'S BANKS AND THRIFTS;

-- VA AND FHA EITHER MAKE MORTGAGE LOANS OR GUARANTY REPAYMENT OF SUCH LOANS WHEN MADE BY COMMERCIAL LENDERS TO QUALIFIED BORROWERS;

-- FANNIE MAE AND FREDDIE MAC, WHICH ARE FEDERALLY CHARTERED ENTITIES, PURCHASE BILLIONS OF DOLLARS IN MORTGAGES AND PROVIDE HUGE AMOUNTS OF LIQUIDITY TO PRIMARY AND SECONDARY MORTGAGE MONEY MARKETS; AND,

-- THE SEC SUPERVISES THE SALE OF BILLIONS OF DOLLARS OF MORTGAGE-BACKED SECURITIES TO PUBLIC INVESTORS ANNUALLY.

TO AN OVERWHELMING EXTENT, NONE OF THESE ACTIVITIES COULD TAKE PLACE WITHOUT COLLATERAL AND WITHOUT A DETERMINATION THAT, IN THE EVENT OF A DEFAULT, THE MARKET VALUE OF THE COLLATERAL IS ADEQUATE TO REPAY THE LENDER, INSURER, GUARANTOR OR INVESTOR. IT IS THE APPRAISER WHO MAKES THAT DETERMINATION AND PROVIDES THAT ASSURANCE. IF A DEFAULT TAKES PLACE AND THE PROPERTY COLLATERALIZING THE REAL ESTATE TRANSACTION HAS BEEN OVERVALUED BY THE APPRAISER -- EITHER THROUGH INCOMPETENCY OR DISHONESTY -- FORECLOSURE AND SALE OF THAT PROPERTY WILL OFTEN BE INSUFFICIENT TO COVER THE OUTSTANDING INDEBTEDNESS. IT IS SAD TO SAY, BUT THIS IS AN INCREDIBLY COMMON OCCURRENCE THAT IS MOST OFTEN CAUSED BY LENDER AND BORROWER PRESSURE

ON THE APPRAISER TO PRODUCE A VALUATION HIGH ENOUGH TO "MAKE THE DEAL." IN FACT, SO MANY DEALS OF THIS KIND HAVE BEEN MADE IN RECENT YEARS THAT HUNDREDS OF THRIFT INSTITUTIONS HAVE BEEN MADE INSOLVENT BECAUSE OF THEM!

LET ME TURN NOW TO THE QUESTION OF HOW VA'S LOAN GUARANTY PROGRAM HAS BEEN SPECIFICALLY IMPACTED BY FAULTY OR FRAUDULENT APPRAISALS. THE VA OPERATES UNDER A STATUTORY REQUIREMENT THAT A LOAN GUARANTY CANNOT EXCEED THE "REASONABLE VALUE" OF THE PROPERTY ON WHICH THE GUARANTY IS ISSUED. IN ORDER TO ESTABLISH REASONABLE MARKET VALUE, VA MAINTAINS A ROSTER OF 6,000 FEE APPRAISERS WHO, IN FY 1985, PERFORMED 613,000 APPRAISALS. THE CENTRAL PURPOSE OF THIS STATUTE AND THIS SYSTEM IS TO PROTECT THE AMERICAN TAXPAYER WHO STANDS BEHIND EACH AND EVERY VA GUARANTEED MORTGAGE LOAN.

ALTHOUGH VA HAS NEVER REGARDED APPRAISAL ABUSES AS BEING AN OVERWHELMING PROBLEM, IT HAS ACKNOWLEDGED THEIR SERIOUSNESS AND HAS VOWED TO DEAL WITH THEM EFFECTIVELY. AN INDICATION OF THE EXTENT OF THE PROBLEM IS ILLUSTRATED BY THE FOLLOWING:

-- IN FY 85, FROM 10 PERCENT TO AS MUCH AS 40 PERCENT OF THE VA'S $420 MILLION LOAN GUARANTEE LOSS WAS CAUSED BY INACCURATE OR DISHONEST APPRAISALS.

-- THE NUMBER OF VA APPROVED FEE APPRAISERS WHO HAVE BEEN SUSPENDED OR DISCIPLINED FOR INCOMPETENCY OR UNETHICAL BEHAVIOR, HAS BEEN INCREASING DRAMATICALLY: IN FISCAL YEAR 1983, IT WAS 348. IN FY 84 IT WAS 505. IN FISCAL 85 IT WAS 631. IN FY 86 IT GREW TO OVER 1,200!

-- THE VA'S INSPECTOR GENERAL FOUND THAT BETWEEN 1981 AND 1984, HOME LOAN GUARANTEE PROGRAM APPRAISERS FREQUENTLY OVERVALUED PROPERTIES, RESULTING IN HIGHER CLAIM LOSSES AND INCREASED VETERAN INDEBTEDNESS.

-- FINALLY, A NATIONWIDE SERIES OF MAJOR FRAUDS PERPETRATED AGAINST THE FEDERAL HOUSING ADMINISTRATION, INVOLVED VA APPRAISERS AND APPRAISAL DOCUMENTATION.

THE SUBCOMMITTEE FOUND THAT MANY OF VA'S APPRAISAL PROBLEMS RESULTED FROM WEAKNESSES IN ITS APPRAISAL-RELATED POLICIES AND PROCEDURES, ESPECIALLY THE FAILURE OF RESPONSIBLE OFFICIALS TO EFFECTIVELY MONITOR AND SUPERVISE APPRAISER PERFORMANCE. WE DISCOVERED THAT IN MANY CASES WHERE FIELD REVIEWS OR OTHER SOURCES DISCLOSED UNSATISFACTORY APPRAISER PERFORMANCE, THE VA DISCIPLINED THE IMPLICATED APPRAISER EITHER INSUFFICIENTLY OR NOT AT ALL. MOREOVER, VA FIELD REVIEWS WERE NOT PERFORMED AS FREQUENTLY OR THOROUGHLY AS REQUIRED: FOR EXAMPLE, THE VA REVIEW PROCESS HAD MISSED ALL OF THE 500 APPRAISALS TIED TO THE FRAUDULENT SCHEMES PERPETRATED AGAINST THE FHA IN CAMDEN, NEW JERSEY, IN THE 1980'S.

THE SUBCOMMITTEE'S SEPTEMBER 1987 REPORT RECOMMENDED A NUMBER OF SOLUTIONS TO THE APPRAISAL-RELATED DEFICIENCIES IN THE VA PROGRAM. WE RECOMMENDED FOR EXAMPLE:

-- A TIGHTENING OF VA'S APPRAISAL REVIEW AND MONITORING PROCEDURES;

-- THAT VA JOIN A FEDERAL INTERAGENCY TASK FORCE ON THE SUBJECT OF APPRAISAL ABUSES; AND

-- THAT VA SHOULD DEVELOP PROCEDURES FOR SHARING INFORMATION ON ITS OWN APPRAISAL PROBLEMS WITH OTHER FEDERAL AGENCIES.

IN ITS DECEMBER 1986 RESPONSE TO THE SUBCOMMITTEE REPORT, THE VA WROTE THAT IT HAD

> "TAKEN IMPORTANT ACTIONS AND IMPLEMENTED PROCEDURAL STEPS TO IMPROVE ITS APPRAISAL SYSTEM. WE DO NOT UNDERESTIMATE THE IMPORTANCE OF THIS COMPLEX ISSUE AND ARE COMMITTED TO CONTINUED EFFORTS TO INSURE THAT THE VA HAS AN EFFECTIVE AND VIABLE

APPRAISAL SYSTEM ADEQUATELY PROTECTED FROM POOR QUALITY OR INAPPROPRIATE APPRAISALS AND THOSE APPRAISERS WHO PERFORM THEM."

I AM PLEASED TO TELL YOU THAT THE SUBCOMMITTEE'S RECOMMENDATIONS HAVE BEEN LARGELY IMPLEMENTED BY VA. FOR EXAMPLE,

-- VETERANS ADMINISTRATION, FHA, FANNIE MAE, AND FREDDIE MAC HAVE DEVELOPED A COMMON APPRAISAL FORM WHICH IS NOW IN USE. VA ALSO TIGHTENED ITS APPRAISAL-RELATED UNDERWRITING PROCEDURES AND MONITORING REQUIREMENTS.

-- VA HAS BECOME AN ACTIVE PARTICIPANT IN A NEW FEDERAL INTERAGENCY TASK FORCE THAT IS ATTEMPTING TO FASHION COMMON FEDERAL SOLUTIONS TO APPRAISAL ABUSES;

-- VA HAS EMPHASIZED TO ITS FIELD STATIONS THAT VA APPRAISALS INTENDED FOR HUD/FHA INSURING PURPOSES SHOULD BE SUBJECT TO THE SAME QUALITY CONTROLS AS THOSE INTENDED FOR VA FINANCING;

-- APPRAISER-PROPOSED INCREASES IN MARKET VALUE ON VA GUARANTEED PROPERTIES MUST BE ACCOMPANIED BY ADEQUATE DOCUMENTATION, INCLUDING SUPERVISORY CONCURRENCE WHEN THE INCREASE IS 5 PERCENT ABOVE THE ORIGINAL MARKET VALUE;

-- FIELD STATIONS GUIDELINES CONCERNING REVIEW OF APPRAISAL REPORTS WERE EXPANDED IN MARCH 1986. FIELD STATIONS ARE NOW REQUIRED TO SUBMIT TO VA'S WASHINGTON OFFICE A YEAR-END WRITTEN REPORT WHICH WILL ALLOW HEADQUARTERS TO MONITOR FIELD STATION SUPERVISION OF FEE APPRAISERS. THE REPORT INCLUDES NEGATIVE WORK QUALITY FINDINGS NOTED DURING FIELD STATION STAFF REVIEWS AND DISCIPLINARY ACTIONS, I.E., WRITTEN ADMONISHMENTS, TEMPORARY SUSPENSIONS, AND REMOVALS, TAKEN AGAINST FEE APPRAISERS.

-- ON JANUARY 8TH OF THIS YEAR, VA AMENDED ITS PRIVACY ACT REGULATIONS SO THAT IT COULD SHARE WITH FHA, FREDDIE MAC, LENDERS AND OTHERS, INFORMATION ON REMOVAL ACTIONS CONCERNING FEE APPRAISERS IDENTIFIED WITH INCOMPETENCE, MALFEASANCE, OR PRACTICES DETRIMENTAL TO THE INTEREST OF THE GOVERNMENT, PURCHASER OR LENDER. IN ADDITION, VA NOW NOTIFIES STATE LICENSING AGENCIES, IF APPROPRIATE, AND THE PROFESSIONAL APPRAISAL ORGANIZATIONS WITH WHICH THE FEE APPRAISER IS IDENTIFIED.

IN SHORT, MADAM CHAIRWOMAN AND MEMBERS OF THE SUBCOMMITTEE, ABUSIVE APPRAISAL PRACTICES HAVE HAD, AND IN MANY INSTANCES CONTINUE TO HAVE, A SEVERELY DETRIMENTAL IMPACT ON MANY FEDERAL PROGRAMS. HOWEVER, THE REFORMS ACCOMPLISHED BY THE VETERANS ADMINISTRATION PROVIDE REASON TO BE OPTIMISTIC THAT IN THE FUTURE THESE PROBLEMS MAY BE AMELIORATED INSOFAR AS THE VA LOAN GUARANTY PROGRAM IS CONCERNED.

I HOPE THAT MY TESTIMONY HAS BEEN OF SOME BENEFIT TO YOU AND I HOPE THAT WHEN YOU HAVE THE VA BEFORE YOU, YOU WILL URGE THEM TO CONTINUE TO BE DILIGENT IN DEALING WITH APPRAISAL ABUSES.

TESTIMONY OF
THE HONORABLE FOFO I.F. SUNIA
MEMBER OF CONGRESS FROM AMERICAN SAMOA

Madam Chairman:

Thank you for allowing me the opportunity to appear before the subcommittee today. The subject I want to address this morning is the availability of home loans for veterans of the United States military living in American Samoa, the territory I represent in the United States Congress.

For the past six years, I have worked with several people, both in the territory and here in Washington, in an effort to extend to our veterans the benefits offered by the Veterans Administration Guaranteed Home Loan program. Although progress has been made, I must regretfully report that these efforts have not succeeded. As a result, U.S. veterans in my territory stand alone in not being able to enjoy this most basic, and successful, veterans benefit.

Many of the barriers to our participation in this program, Madam Chairman, stem from particular elements of Samoan society. The first obstacle which had to be overcome was the restrictive nature of American Samoa's land ownership system. The VA was not anxious to extend its guarantees to the territory without assurance that its funds would be protected. In response to these concerns, the legislature of American Samoa approved a law which increased the maximum term of a property lease to 55 years, thereby ensuring greater stability of the loan applicants.

On the heels of this hard-won resolution came word from our financing institutions that they were not eager to participate in a housing loan program, even with the promise of a VA guarantee. Their position, while unfortunate, is not very difficult to understand, for there simply are not the resources available in American Samoa to commit to such an ambitious undertaking.

Unfortunately for our veterans, there are only two banks in the territory:

one local, and the other a branch of the Bank of Hawaii. Neither was adequately prepared to participate in the VA program for reasons I described a moment ago, and in susbsequent discussions, put forth additional conditions which made acquisition of home loans by our veterans even more difficult.

Madam chairman, in the spirit of flexibility, I have joined with veterans groups in American Samoa in their efforts to seek an alternative solution. This solution, we believe, would be the establishment of a direct home loan program for the territory. The contention of our veterans, which I strongly support, is that this fundamental aspect of veterans assistance will be forever withheld from them unless there is a new approach to the problems at hand.

If I can, let me digress for a moment to tell the members of this subcommittee about the special relationship between the United States military and my territory. It is indeed a unique one. Despite having been a part of the American family for only 87 years, American Samoa has more people in our armed forces, per capita, than any other community in this nation. I am very proud of that distinction. And the numbers continue to grow - in the next few years, practically every family in the territory will have a veteran in its midst.

Lying 2600 miles southwest of Hawaii, American Samoa is the only U.S. presence in the increasingly important South Pacific Ocean. From our early association with the U.S. Navy, which administered the islands following their cession to the United States in 1900, American Samoa has had a long love affair with the U.S. military. Patriotism and pride in our country run very, very high. Next week we will dedicate a new U.S. Army Reserve Center in the territory, named after the first American Samoan casualty of the Vietnam War, Sargeant Fiatele Te'o of Pago Pago village. The full time Army recruiting office in the territory, Madam chairman, is always busy, and the number of recruits seems to be limited only by their ability to successfully master the entrance exam.

It is not surprising, then, that the roll of retirees continues to swell. They and their families represent the fastest growing group in the territory. And when they return home, following a carreer of service that often spans twenty or thirty years, they clearly have a need for housing. The absence of a home loan program from which they can borrow to build their dreams is truly sad. These men and women have served us well and have retired with the promise of certain basic benefits, only to find that we are unable to deliver on that promise. The ongoing commitment they have demonstrated to this country deserves better than that.

I have asked the chairman of your full committee, the Honorable Sonny Montgomery, to look into this problem. He has kindly consented to do so, just as he has responded to similar requests in the past. In his letter of November 18, 1983, to VA Administrator Harry Walters, Chairman Montgomery said, "It would seem to me that utilization of the VA's direct loan program would be warranted and would be an effective and prompt solution." It is my fervent hope that Chairman Montgomery's advice can be acted upon.

In order to highlight the perdicament of the American Samoa veteran, let me add that the Guaranteed Home Loan Program is not the only benefit rendered partially or wholly unavailable to him or her. Because the American Samoa Community College is the only institution of higher learning in the territory, the veteran has no choice of where to use his benefits under the G.I. bill. The veteran cannot exercise his or her shopping privileges because there are no commisaries in American Samoa. There is no VA hospital in the territory - the closest one is in Honolulu. And to see a VA officer, our veterans have to wait until the representative comes down from Hawaii - every three months.

Therefore, Madam chairman, I urge you, I implore you, to do whatever you can to help the veterans in my district. The benefits I have just described would be nice to have, but a home is a must. In order to fill this gaping need, I feel we need to create a direct loan program, to be manged by the Veterans Administration offices in Honolulu. Thank you.

TESTIMONY BEFORE
THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
HOUSE VETERANS' AFFAIRS COMMITTEE

Jack Radtke, President
Urban Revitalization America, Inc.
April 9, 1987

Ms. Chairman & Members of the Committee:

I am pleased this morning to appear before the Subcommittee on Housing and Memorial Affairs to testify on behalf of our nations veterans on the pressing question of affordable and decent housing and the important role that the VA's Home Loan Guaranty Program plays in that process. Two weeks ago, as you are aware, I appeared before the Subcommittee on Education, Training & Employment, to discuss the program which URI has developed, utilizing our countries veteran population in a unique public-private venture combining job training skills and housing renovation and rehabilitation.

Urban Revitalization America, Inc., was founded eleven years ago to develop joint venture residential rehabilitation community revitalization projects linking the U.S. Department of Labor, Veterans Administration and the Department of Housing & Urban Development, along with a growing number of concerned and committeed representatives of the private sector. In addition to these sources, contributing to the newly invigorated structure of our future endeavors will be a diversity of community organizations, nationally recognized real estate firms, state and local governments, and prominent home improvement companies from throughout the nation.

We believe, Ms. Chairman, that our projects combining these very unusual features have succeeded in securing affordable housing, a catalyst for future economic and community development, and a viable workforce--retrained as experts in residential rehabilitation, with sufficient skills to ensure long-term employment stability. Over the past ten years, URI has completed over ten thousand residential rehabilitation projects in the center cities of Detroit, Pittsburgh and Nashville and the more rural and outlying areas of Monroe, Michigan and Lowell, Massachusetts. In providing job training skills to over fifteen hundred women and men, URI has completed structural renovations on both single and multi-family homes, schools, and community centers for our youth and the elderly. In the course of our projects, URI has provided training in a whole range of skill areas to guarantee the trainee the best opportunity to utilize their abilities in a permanent position in the workforce.

Ms. Chairman, our program has continually created the most cooperative working environments between local governments, citizen organizations, corporations and labor and union representatives, insuring an unusually high percentage of our graduates are placed in full-time positions. While most analysis of major federally funded job training programs during the 1970's and 1980's found that placement rates typically ranged from twelve to twenty percent for those who completed the program, because of our very unique packaging of resources, both human and financial, from the public and private sector, our records indicate that nearly 90% of our participants were placed and are working in full-time positions after completion of the training program.

The accomplishments that I have outlined would not have been possible without the cooperative assistance of both the Department of Labor and the Veterans Administration in securing training funds. These funds have been indispensible in two respects. First they have provided the essential re-training for hundreds of displaced veterans in the workforce who may not have been particularly well suited by skill for work in the "High Tech" areas, but are motivated and dependable for their commitment to complete the tasks in the housing rehabilitation and energy conservation fields. Second, these federal funds have been critical in allowing URI to leverage, in both an in-kind and cash contribution mode, assistance from numerous corporations and businesses from throughout the country. We have been fortunate to receive assistance from such corporations as General Motors, Dayton-Hudson, Dow Chemical, Johns Manville and Alcoa, to name a few in sustaining our efforts. Most recently, we have discussed expansion of these efforts with the Meredith Corporation, Carrington Financial and the Wickes Corporation, who are considering what positive role they can play in our national program.

Our initiatives, we believe, are particularly well suited to assist the Veterans Administration in a comprehensive national effort, to provide both affordable and decent housing for their targeted populations. As you are aware, the Veterans Administration currently list in their inventory some 20,000 homes, which are available for re-purchase by famillies throughout the country. A number of these properties are unquestionably in need of repair--ranging from major structural deficiencies to less severe problems incurred because of lengthy vacancies and vandalism. As a result the ability to attract sufficient interest to purchase these homes has been diminished; cities will refuse to issue certificates of occupancy on homes requiring additional work, and attractive financing packages are foregone. Large pocket populations centers, such as Houston, Texas, Cleveland Ohio, and New Orleans, Louisiana, to say nothing of Atlanta and Chicago, where representatives of the URI staff have visited over the past week, have unacceptably high numbers of properties available in their inventories. I suggest that these figures are unacceptable, not only because it would be profitable for these homes to be sold and made available to famillies in need, but most importantly because of the critical shortage of adequate housing available to millions of Americans today. From coast to coast, Madame Chairman, we are faced nightly with the incalcuable misery of our fellow citizens who sleep on grates, in alleys, parks or if they are fortunate, bundled up in vacant buildings; huddled up not only against the environment, but against our inability to devise an acceptable solution to this terrible tragedy. In many instances very few feet away, laying vacant, boarded up and shamefully empty, are dozens of properties, which could easily be renovated for use by the displaced and the homeless.

Our proposal, Ms. Chairman simply encompasses utilizing our training program, supported by Veterans Job Training Act dollars, to work cooperatively with the Veterans Administration in Washington, D.C. and their regional offices, to renovate and rehabilitate these properties. For those who are unfortunate to be homeless by either circumstance or economics, we would suggest working on a sufficient number of properties in each community to provide temporary shelter for these citizens. Structured similar to the well known 'Ronald McDonald' homes throughout the country, this effort would require no new legislation, and in almost every instance, no additional funding--merely the assistance, cooperation, and rapidly a directive from the VA to effectuate such an effort. For the remaining populace, who are pre-qualified to purchase properties, but who live today in sub-standard housing, a similar initiative, utilizing the same inventory should be considered. A major difficulty that has been faced by this particular group is the lengthy period of time that is required by the Veterans Administration to provide approval for a mortgage. In our single sample experience for fifteen units which we completed work on in Michigan, approvals required an average of six months, a figure unacceptable if one is attempting to sell such large numbers of properties rapidly.

We are confident, Madame Chairman and members of the Committee, that an initiative such as this, fusing the dilligent efforts of Veterans working in a job-training program, with a coordinated approach to ensure that such renovated properties are effectively made available to those in need is one good answer to this crisis. I appreciate this opportunity to testify on this very important topic and would look forward to answering your questions on the proposal we have put forward today.

NATIONAL
Neighbors

Bowen Bldg., Suite 525 A, 815 15th Street, N.W., Washington, D.C. 20005 (202) 347-6501
Midwest Office, 3130 Mayfield Road, W207, Cleveland Heights, Ohio 44118 (216) 371-4285

STATEMENT BY:

Charles Bromley
National Neighbors, Inc.
815 15th St. NW 525A
Washington, DC 20005

HEARINGS BEFORE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

I am Charles Bromley, Executive Director of National Neighbors, Inc., a national coalition of 260 multiracial communities. I am also coordinator of Metropolitan Strategy Group, a coalition of Ohio multiraical communities and fair housing groups. National Neighbors has worked to promote successful multiracial communities since 1968. We strongly believe that thriving integrated communities are necessary to counteract the racial conflict and discrimination that continue to weaken America's economy, morale and world standing. It was Neighbors that first identified, labeled and cast national light on racial steering. We have frequently been on the forefront of legislative developments. For example, our D.C. affiliates, advocating public accountability of private lending practices, provided key testimony for the passage of the Home Mortgage Disclosure Act.

The V.A. Home Loan Program has been an important instrument in giving millions of veterans the pride of home ownership. The benefits provided by this program are well deserved by our veterans and continue to enhance their lives and, ultimately, the communities in which they serve as valuable neighbors.

Any program the size of V.A. housing programs is obviously going to have a major impact on neighborhoods in our metropolitan areas. Recently, much concern has arisen at the neighborhood level about V.A. Loan guarantees. The concern revolves around two issues: foreclosed property and enforcement of fair housing provisions mandated by the Fair Housing Act of 1968 and the Housing and Community Development Act of 1974.

The problem of foreclosures in the V.A. Loan Program is one that the agency recently has sought to address with a more vigorous review of underwriting standards. This has helped, to some degree, to ensure that loan applicants can actually afford the homes for which they seek mortgages. Nonetheless, a V.A. mortgage is still categorized as a high-risk mortgage since purchasers pay less than 5% down, and research definitively shows that concentrations of high risk mortgages in neighborhoods tend to produce concentrations of foreclosures.

For example, the City of Cleveland has twice as many high risk mortgages on the east side as on the west side. Invariably, we find that east side neighborhoods have much higher rates of foreclosures than west side neighborhoods with comparable demographics. We find the same patterns when we compare suburbs with similar demographics but differing incidences of high-risk mortgages.

The affects on communities are devastating. The community becomes aware of the problem only after all the attendant problems become visible -- high grass, broken windows and criminal activities near the vacant sites, to name a few. The eventual outcome is, of course, a decline in the area's attractiveness and in demand for property among all potential homebuyers.

I strongly recommend that the V.A. produce an Impact Report with numbers of V.A. loans for each census tract, much along the same lines as the H.M.D.A. reports for regulated lenders which have been submitted since 1975. I further recommend that as soon as a census tract reaches a level of 20% V.A. mortgages, the V.A. should immediately contact the municipality where the census tract is located.

The second area of concern is the impact of the V.A. Loan Guarantee Program on fair housing and multiracial communities.

Public law states: "The Department of Housing and Urban Development and any other department or agencies of Federal Government having powers, functions or duties with respect to housing shall exercise their powers, functions, duties...in such a manner as will encourage and assist the development of well-planned, integrated, residential neighborhoods." Because the V.A.'s financing is unmonitored and unregulated, and the V.A. does not make public any documentation about the racial impact of the Loan Guarantee Program, communities working to preserve open housing must struggle to obtain important data needed to help them maintain the vitality and heterogeneous flavor of their neighborhoods.

For example, the Greater Cleveland area is the most segregated metropolitan area in the country, according to Karl Taeuber, a demographer at the University of Wisconsin. The Heights Community Congress of Cleveland Heights, one of the country's most successful and vital multiracial communities, spent four years and thousands of hours trying to get records from the V.A. to assist community lenders in identifying the racial impact of the V.A. Loan Guarantee Program on the City of Cleveland Heights. Untimately, some data was turned over to H.C.C., but only after extensive litigation. (The City of Cleveland Heights now has a field operation to obtain V.A. Loan Guarantee information). The data that was finally acquired by the H.C.C. showed a strong correlation between concentrations of foreclosures of V.A.-mortgaged homes and neighborhood resegregation in the Heights area.

I propose that the V.A. Loan Guarantee Program maintain an inventory of loans made by race and census tract. I further propose that, as soon a neighborhood begins to resegregate at the same time that the V.A. is awarding a disproportionate number of minority loans, the V.A. should give pre-purchase counseling to applicants in that neighborhood to advise them of the full range of their housing choices. The V.A. should be particularly conscious of informing minority veterans of properties in predominantly white communities, to which they are all too often denied access.

Veterans have served their country well. They deserve to come home to cities that are not filled with racial tensions and divisions, but reflect the Congressional mandate of "well-planned, integrated residential neighborhoods." The V.A. has done a good job of giving veterans access to affordable housing. But our veterans are equally entitled to live in non-segregated communities that are safe, attractive, well-maintained and economically stable.

TESTIMONY ON HOUSING OPPORTUNITIES' HOPE PROGRAM

TO

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

FROM

HOUSING OPPORTUNITIES, INC.

133 SEVENTH STREET

P.O. BOX 9

MCKEESPORT, PA 15134

CONTACT PERSON: ALLEN W. SETHMAN

PHONE NO.: 412 - 664-1590

APRIL 9, 1987

Housing Opportunities, Inc. is a private nonprofit corporation located in McKeesport, Allegheny County, Pennsylvania. Housing Opportunties developed in 1983 a foreclosure prevention program entitled Home Ownership Protective Effort (HOPE). The HOPE Program was developed in response to high levels of unemployment and underemployment that were occurring in Western Pennsylvania. As a result of families losing their jobs, increasing mortgage and utility delinquencies began to occur.

In 1983 the HOPE Program was developed as a pilot that involved five local lending institutions and two major utility vendors. The participating private sector entities agreed to pay Housing Opportunities for counseling services to effectively deal with the delinquency problems. The one year pilot period proved very successful in decreasing mortgage and utility delinquencies and provided a cost effective method of dealing with the unemployment and underemployment problems. As a result of the HOPE pilot program's success, the Department of Housing and Urban Development agreed to replicate this effort in Cleveland, OH, Youngstown, OH, Erie, PA and Sharon/Farrell, PA. This replication has resulted in franchise agencies implementing the HOPE Program in Youngstown and Cleveland, OH and we hope to have the agencies established in Erie and Sharon/Farrell, PA areas in 60 days.

The HOPE Program provides a three-fold approach to providing long term solutions to the unemployment problem. First, extensive financial and budgetary counseling assures that families are prioritizing their expenditures and reducing unnecessary debts. Secondly, the HOPE counselor makes sure that client families apply for all eligible public monies for which they are eligible. Additionally, the nonprofit agency implementing the HOPE Program, develops local private sector resources to complement the families' situation. Thirdly, the HOPE Program motivates and directs families to job retraining and any available reemployment programs. This three-fold approach assists families deal with the crisis situation of mortgage foreclosure or utility disconnects and develops a long term plan to resolve the financial problems. The public/private parternship exemplifies how these social services can be provided in a cost effective, professional manner. The obvious missing sector in the HOPE foreclosure prevention system is participation by the Veterans Administration in a similar manner that the FHA participants. Local mortgage servicers are reluctant to pay for counseling services when the mortgage is insured. This reality has prompted the FHA to provide the counseling fees when the loan is FHA guranteed. A similar relationship with the Veterans Administration would assure that veterans who are victims of unemployment or underemployment could receive these much needed services.

Over the past five years Housing Opportunities has dealt directly with the Veterans Administration on behalf of client families and, through various consulting contracts, have worked with 33 nonprofit counseling agencies throughout Pennsylvania that are involved in providing delinquent mortgage counseling services. The experience of Housing Opportunities and of the majority of counseling agencies that I have worked with have found the following shortcomings in Veterans Administration servicing of delinquent loans:

1. The Veterans Adminstration has no program equivalent to the FHA Assignment Program. Many veterans who purchased their home using VA benefits could have qualified for FHA financing and been eligible for a comprehensive program to deal with the temporary loss of income. The Veterans Administration should offer at least equivalent safeguards to foreclosure as the FHA and arguably should offer better programs.

2. The Veterans Administration is very inconsistent in providing counseling and forebearance agreements to delinquent mortgagors. The inconsistency exists between regional offices and within a regional Veterans Administration office depending on the loan servicer you work with. The consistency of information and options to foreclosure should be available to all veterans.

3. The Pittsburgh area is currently advertising over 300 Veterans Administration foreclosures for sale to veterans or non veterans. Many times these homes are sold at far below their fair market value. This strategy, though successful in reducing Veterans Administration housing inventories, negatively impacts the property values of other neighborhood homes.

4. The extent of the Veterans Administration housing inventory coupled with the average loss per foreclosure should be looked at closely to determine if additional foreclosure prevention strategies should be developed.

Housing Opportunities would encourage the Veterans Administration to consider participation in the HOPE Program as a cost effective way to provide additional needed services to Veterans Administration delinquent mortgagors. This public/private approach to dealing with the foreclosure issue has proved successful over a four year period and could be of mutual benefit to the Veterans Adminstration and the veteran mortgagors.

STATEMENT OF
WILLIAM A. WHITESIDE, EXECUTIVE DIRECTOR
NEIGHBORHOOD REINVESTMENT CORPORATION
BEFORE THE
HOUSE VETERANS' AFFAIRS COMMITTEE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
APRIL 9, 1987

Madame Chairwoman and members of the Committee, I am pleased to be here today, to speak with you on behalf of the Neighborhood Reinvestment Corporation and its network of Neighborhood Housing Services and related partnership organizations. We earnestly desire to enlist the Veterans' Administration as a partner in our work of promoting neighborhood stability and the revitalization of declining neighborhoods.

The Corporation is now in its 17th year of neighborhood revitalization work, beginning as an office of the Federal Home Loan Bank Board, expanding under the Urban Reinvestment Task Force, and operating for the past eight years as the congressionally-chartered Neighborhood Reinvestment Corporation. The Corporation's Board of Directors includes the Chairman of the Federal Home Loan Bank Board, the Secretary of Department of Housing and Urban Development, a Member of the Board of Governors of the Federal Reserve System, Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Administrator of the National Credit Union Administration.

Our primary thrust is the development and technical support of Neighborhood Housing Services (NHS) and related partnership organizations, whose mission is to reverse disinvestment and deterioration in neighborhoods, for the benefit of their current residents.

NHSs and related neighborhood partnership programs form a national network of local, private, nonprofit, self-help organizations. They plan and implement coordinated, comprehensive reinvestment strategies designed to produce neighborhood revitalization; improve and maintain neighborhood stability; and effect an improved quality of life in the low-to-moderate income neighborhoods they serve. At the heart of each program is a partnership of residents, business leaders and local government officials, who commit their time, expertise and financial resources to systematically improve housing, upgrade neighborhood services and amenities, reverse weak demand factors, and enhance image and market conditions. The Corporation develops these partnerships, and provides them with financial and technical assistance.

The local NHSs utilize an array of tools and strategies to achieve their goals of revitalizing lower income neighborhoods, which include the rehabilitation of occupied and unoccupied single and multifamily structures, rehabilitation of commercial and other non-residential structures; adaptive reuse of structures exerting a blighting influence on the neighborhood; the move-on of existing buildings to vacant lots; home ownership promotion and tenant conversion strategies; and construction of new homes in scattered site and subdivision settings, and managing construction and rehabilitation by their future occupants of single and multifamily homes.

Today, over 2.4 million Americans (whose median household incomes are 72% of the median household income for the U.S.) live in the 237 neighborhoods served by neighborhood partnership organizations. The neighborhoods are located in 137 cities, towns and rural communities in 42 states and the District of Columbia. An additional 52 neighborhoods, containing a population of over 350,000 people, have become substantially self-reliant as a result of the local partnerships' work. Over four billion dollars of reinvestment has been generated in neighborhoods nationwide, with funds provided primarily by private lenders, residents and local government.

Given the nature of their work, the overall constraint on resources, and rapidly changing housing pressures, Neighborhood Reinvestment's network of neighborhood-based partnership organizations has long been sensitive to the need to tap into every available public and private program and resource. Lending resources have included conventional, FHA, VA (to a far more limited extent), various federal, state and local loan programs designed for lower income borrowers, and the NHSs' own revolving loan funds for making loans at flexible rates and terms to neighborhood residents who do not fit the underwriting criteria of any of the other lenders.

In preparation for this hearing, we sampled local programs' experience, but have not had the time to survey them all, or, indeed to thoroughly familiarize ourselves with Veterans' Administration Home Loan Guaranty Program regulations and practices. It is with that caveat that we offer the following observations and recommendations. If the committee wishes, we will pursue specific areas to obtain more complete data for the record.

Our observations are from the point of view of impact on neighborhood stability and revitalization, and they fall into three categories:

- the use of VA loans in the sale of properties;
- problems related to VA loans experiencing delinquency and foreclosure; and
- difficulties in turning foreclosed VA properties into neighborhood assets.

1. Use of VA Loans in Sale of Properties

The general impression among NHS staff, neighborhood realtors, and foreclosure counselors interviewed was that the VA Loan Guaranty Program is primarily a suburban program and that it has been little used in NHS neighborhoods. While VA loans have below-market interest rates and even lower downpayment requirements than FHA, the higher origination points, requirements that sellers make designated repairs, and a perceived slower processing time limit the program's utilization.

In some neighborhoods undergoing changes in racial or economic populations, an untoward effect has been that VA -- and to a larger extent FHA -- loans helped middle-income buyers "buy up" without requiring significant cash (and thus leave the neighborhood), and enabled quite low-income buyers to enter the market without cash reserves. Without cash reserves, the low-income buyers often faced insurmountable repair costs a few years later. The reason for this is that the required repairs are often seen as superficial masks over more serious obsolescence in an older structure, and that a system in working order often meets inspection requirements, without regard to the probability of its need for early replacement. Loans for very low-income borrowers might better be structured to build-in money for appropriate upgrading. A modestly priced house of $30 - $50,000 may need $8-$10,000 in improvements within two to four years. Without a financial cushion, such improvements require an expensive second mortgage, are deferred, or can lead to a default if the home becomes unlivable.

A number of NHSs have seen the Veterans' Administration as unnecessarily rigid in its underwriting. Two examples of this that were cited were 1) an application by a 20-year military retiree during his first year of civilian employment, and 2) an application by a family whose income needed the earnings of the wife who was in her first year of job reentry after child rearing. In both cases the loans were denied based on a one-year employment rule, although both cases were considered to be outstanding risks.

Finally, the Gainesville, Florida NHS reports that as a result of a new appraisal requirement they are now unable to make use of VA loans in their Home Ownership Promotion program. Appraisal prices must now reflect the appraiser's best determination of what the property could be resold for within 90 days. Since current market conditions usually result in properties being listed for 180 days, the appraisals yield a "forced sale" value, effectively ending the potential of VA sales.

2. Problems Related to VA Loans Experiencing Delinquency and Foreclosure

Many NHSs and other neighborhood nonprofit organizations work with lenders to intervene in foreclosures in an effort to prevent displacement and homelessness. Foreclosure counselors and NHS directors were unanimous in claiming that FHA was easier to work with and was more responsive in areas such as timely replies, flexibility, and willingness to forebear for valid reasons (sudden unemployment, health problem, accident or injury).

The VA procedure was seen as inflexible and definitely too slow. By the time the VA acts the loan is essentially in foreclosure. Families are intimidated by the paperwork and it is believed that owners sign deeds in lieu of foreclosure even when it makes little economic sense to do so.

In addition to having too little time to counsel and assist the family with its economic problem, there is no time, as an alternative, to help the family undertake a successful sale of the property.

Two problems cited are:

- The VA lacks a set of widely distributed guidelines under which forebearance negotiations can be considered, and
- The VA does not have a requirement that mortgage companies notify delinquent borrowers of counselling services sufficiently early in the delinquency.

We realize that the VA may have policies to deal with the problems cited, but if that is the case, they are not widely communicated, and -- in fact -- the VA is widely viewed as "impenetrable" by nonprofit organizations engaged in assisting lower income neighborhood residents deal with housing problems.

3. Difficulties in Turning Foreclosed VA Properties into Neighborhood Assets

The area of greatest frustration is the handling of foreclosed properties. The greatest single complaint is that the appraisal process is too slow and inflexible. It was argued that appraisals sometimes took six months to do and then another two months of processing before a property was listed or auctioned. Few of these houses could withstand a northern winter boarded, an assault of vandalism, or a summer of overgrown grass, weeds, and litter and still sell effectively for the original appraisal price.

When a nonprofit, a city government, real estate agent, or a private individual makes offer for negotiation, it is widely believed that the response will be negative. There appears to be little flexibility in the VA sales system and since there are fewer offices than with FHA, there seems to be even greater distance between the decision-makers and the property.

In Toledo, Ohio, the NHS predicts that a VA property in foreclosure for six to eight months could lose as much as 80% of its value. They cite an example of a property on the 2500 block of Lawrence Street that sat vacant for four years although the NHS, the City, and the neighbors all made formal inquires and complaints. Since no response followed, the City was forced to demolish the now unsafe eyesore which had diminished the neighborhood for years and now is a troublesome vacant lot. When NHS tried to intervene on a two year long foreclosure at 2435 Lawrence Street, it was rebuffed and eventually the vandalized property traded for $3600.00.

In Kansas City, Missouri, one real estate broker suggested that in dealings with VA and FHA on repossessed properties, a negotiation with FHA could take a few minutes and result in price flexibility, while the same negotiation with VA could take two to three weeks and would have little hope of succeeding. Moreover, the broker suggested that nonprofit groups in particular can be successful with FHA but not with VA.

In Burton, Michigan, the NHS cannot get an accurate list of the VA foreclosures in the neighborhood except through a cumbersome state-wide phone-in system. When a listing real estate broker is identified, the property might still not be released for showing for four to six weeks. There is a very strongly held belief that the properties will end up in investor ownership before being effectively shown to potential homeowners. The program knows of no asistance the VA makes available to facilitate homeowner sales or rehab. Indeed, VA takes no responsibility to adjust price if damage occurs during the period the house is under contract of sale.

Recommendations

Based on our limited information, we hesitate to make broad recommendations; however, we would welcome an opportunity to enter into cooperative pilot efforts on a limited scale with the Veterans' Administration to look for ways to address some of the areas of concern.

For example:

1. o The NHSs would promote the effective use of VA loans to more properties of local concern. This would necessitate some flexibility in underwriting but more importantly, it would require VA to build rehab into loans or allow combination loans with the NHS.

   o In an effort similar to a joint NHS-CalVet project in San Bernardino, California, the VA could join in the sponsorship of an owner built project, enabling a group of veterans' families to build their own homes under NHSs' supervision, substantially reducing the price of the home to the participating families.

2. In a delinquency counseling demonstration, the VA could allow NHSs to enter earlier, perhaps by direct contact with borrowers at 30 days delinquency. Assigned VA staff could

develop a close working relationship with the NHS and assist it in understanding and using the full flexibility of forebearance guidelines.

3. In a pilot effort to turn VA owned properties into neighborhood assets, the VA could allow direct purchases and/or options on houses at negotiated prices for purpose of resale to homeowners or long-term use for lower income rental housing. The NHS could supply rehab counseling and secure rehab financing to make the deals work. State and local governments as well as FHA are involved in similar relationships with nonprofit organizations.

Thank you for the opportunity to appear before your committee. I would be pleased to take any questions you or other committee members may have.

PRELIMINARY PROPOSAL TO DEVELOP ADVOCACY AND ORGANIZING PROGRAM FOR WASHINGTON METROPOLITAN AREA HOMELESS

The Advocacy Project
of the Washington Metropolitan Union of the Homeless

Contact: Levern Walker, President
Washington Metropolitan Union of the Homeless
Phone: 527-4259

January 28, 1987

I. Purposes of an Advocacy and Organizing Program

The organization and advocacy program of the Washington Metropolitan Union of the Homeless will function under the fiscal sponsorship of Union (WUH). Its primary focus and mission will be to empower homeless men and women in the District of Columbia develop an organized network around commonly identified priorities, and provide concrete opportunities for homeless people themselves to articulate and press for procedures, policies and programs that really address their needs. Specifically, the purposes of the program are:

A. To develop a strong organization of homeless men and women who will be able to advocate on their own for improved services from the city and federal governments.

B. To enlist the active support of local churches, labor, community action and service organizations, and diverse advocacy groups working on behalf of the poor and unemployed, in developing long-term solutions to the homeless problem.

C. To advocate policy changes required at the local and national level to secure permanent, long-term housing for the homeless.

D. To monitor the District's compliance with the law guaranteeing the right to shelter and support services.

E. To train a cadre of homeless organizers who can be deployed to selected advocacy and service components of WUH.

F. To plan, organize and implement a local conference of homeless people in Washington, D.C. by May, 1988.

II. Program Objectives

The organizing and advocacy program will product specific outcomes. They include:

A. Within a year from receipt of the grant, 100 homeless men and women from the Washington area will be actively participating in the core organizing and advocacy activities of the program.

B. A Leadership Development Institute for potential homeless activists will be instituted and will involve a minimum of sixty (60) local, currently homeless men and women in intensive six-week training: 15-20 persons per cycle, four cycles per year.

C. A team of three homeless -- graduate of the Leadership Development Institute -- will be assigned to monitor and report on District and federal government policies, initiatives and application of resources benefiting or adversely affecting homeless people.

D. A major advocacy and action-oriented policy paper (position statement) on Homelessness in Washington, D.C.: Causes and Solutions will be researched, documented and released within the twelve-month grant period.

III. Operational Components

To assure these outcomes, the organizing and advocacy activities are divided into several principal tasks. They include:

A. General outreach and recruitment activities.

B. Public education and advocacy.

C. Negotiation by homeless people with key decision-makers that represents the interests of homeless people.

D. Leadership Development Institute planning, implementation and evaluation activities. These activities will include::

1. District-wide notification and information about the Institute.
2. Conference space and residence preparations for Institute participants.
3. Curriculum and training methodologies.
4. Field project/field testing.
5. Presenters and resource people.
6. Registration and interviewing of participants.
7. Stipends and bookkeeping.
8. Ongoing project assessment and reporting procedures.

IV. Program Administration and Staffing

In implementing the program's activities, specific duties will be outlined for the following job titles:

A. Project Director

B. Principal Organizer/LDI Coordinator

C. Field Organizer

D. Project Secretary

E. Part-time Bookkeeper

In addition to job duties, the detailed proposal will include biographical statements of individuals recommended by the WUH to fill the positions.

V. Advocacy and Organizing Program Budget

Category	12-Month Cost
A. Personnel	
Project Director - 80% time	17,500.
Principal Organizer/LDI Coordinator - 100% time	15,000.
Field Organizer - 100% time	12,000.
Secretary - 100% time	10,000.
Bookkeeper - 30% time	9,000.
	$ 63,500.
B. Fringes	
FICA 7.15%	4,540.25
Unemployment Compensation 4%	2,540.00
Health Benefits 13%	8,255.00
	$ 15,335.25
TOTAL PERSONNEL	$78,835.25
C. Non-Personnel Office Expenses	
Office rent @ 575/mo.	6,900.
Telephone - 2 lines @ 150/mo.	1,800.
Postage for correspondence, fliers, newsletter, fact sheets, planning committee minutes, press releases @ average $80/mo.	960.
Printing and copying @ average $250/mo.	3,000.
Consumable supplies @ average $15/mo. x 5 office personnel	900.
Office equipment:	
- 5 desks and chairs (used)	250.

- Conference table and chairs (used)	200.
- 2 electric typewriters (rebuilds)	1,000.
- Stencil/Mimeograph (used)	250.
- Supplies for Mimeograph and typewriters @ average $15/mo.	900.
	$ 16,160

D. Transportation

Van rental (12 passenger) @ $800/mo. including insurance and maintenance	9,600.
Gas @ average $200/mo.	2.400.
	$ 12,000.

E. Leadership Development Institute

LDI separate conference room rental @ $200/mo. x 8 months	1,600.
LDI materials and materials-development consumables	2,500.
Visual equipment rental @ $30/day x 16 days	480.
Cabinets for securing materials and equipment (used)	200.
	$ 4,780

F. Consultant Contractual

CPA/Auditor, 1 day/mo. x $100/day	1,200.
Attorney, 1.5 days/mo. x $100/day	1,800.
Curriculum/Methodology Training Specialist, 7 days x $100/day	700.
	3,700.

SUBTOTAL NON-PERSONNEL	$ 36,640.
TOTAL PROGRAM BUDGET	$ 115,475.25

Swords To Plowshares
a veterans' rights organization

400 Valencia Street
San Francisco, CA 94103

Telephone
(415) 552-8804

March 24, 1987

Howard Fishman
6617 Millwood Rd.
Bethesada, Maryland 20817

Dear Howard:

Enclosed is a copy of a draft of the Transitional Housing for Veterans that I spoke of. The major value of it is the data that it contains and the description of the formation and efforts of the coalition - Joint Community Task Force on Homeless Veterans. The concept of the proposal is a six to nine month program for employable veterans (minimally 60% of the homeless vet population). The actual substance of the program still needs work; for example, the food service component was dropped because it appeared too expenseive.

Please include it in the package presented to the committee. If you have questions regarding the proposal you can certainly contact me. Also let me know of the particulars of the committee hearings as I may decide to attend.

Also, House Joint Resolution 102 (PL 100-6) is the authority for $5,000,000 of the $50,000,000 transferred from Federal Emergency Management Agency to the VA for the "treatment and rehabilitation for chronically mentally ill veterans."

Sincerely,

Michael Blecker

Michael Blecker
Executive Director

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TRANSITIONAL HOUSING PROGRAM FOR VETERANS: A PROPOSAL

1. INTRODUCTION

San Francisco's homeless population includes several distinct subsets -- seniors, youth, ethnic and racial minorities, families, etc. -- with unique experiences and needs. One such subset is veterans. Surveys have consistently shown that approximately 30 to 40 per cent of those in the city's homeless shelters are veterans, and about half of those are Vietnam-era veterans.

The Joint Community Task Force on Homeless Veterans (Joint Veterans Task Force or JVTF) set out to examine the plight of homeless veterans in San Francisco. In doing so, the Joint Veterans Task Force has developed a profile of the homeless veteran population in San Francisco, has documented their needs, and has surveyed the resources available to meet those needs.

The Task Force has found that the greatest unmet need of these homeless veterans is the means to gain stability in their lives, to faciliate improved access to the existing resources, and to enable them to break out of the cycle of homelessness and achieve self-sufficiency. This proposal calls for creation of a pilot program designed to respond to this need by providing veteran-identified transitional housing coupled with veteran-sensitive supportive services. The pilot program would offer stable housing and specialized support services for a period of 6 to 9 months, after which the veterans would be expected -- and equipped -- to move on to an independent living situation. The target population for this program is that segment of the homeless veteran population that has been identified as being employable, or otherwise capable of stabilizing themselves and living independently, so long as they receive substantial individual attention and support.

II. BACKGROUND

A. THE JOINT VETERANS TASK FORCE

The Joint Veteran's Task Force of San Francisco was formed in June 1985 in response to some startling information about the number of veterans among San Francisco's homeless population and the difficulties they have in gaining access to needed health and social services. The Task Force represents the combined efforts of federal and local government offices, together with community-based organizations, to address those needs.

The events leading up to the formation of the of the Task Force can be summarized as follows:

In March, 1985, testimony before San Francisco's newly formed Health Commission indicated that surveys of San Francisco's estimated homeless population of 7,000-8,000 consistently revealed that 30%-40% were veterans, and half of these were of the Vietnam-era. Moreover,the problems of many homeless veterans were exacerbated by access to needed medical, mental health, and substance abuse services. As a result, the Department of Public Health was asked by the Health Commission to conduct a review of health services available to veterans both within and outside of the Department.

In April, 1985, representatives from several veterans groups and the Department of Public Health met in Representative Barbara Boxer's office to discuss the difficulty many veterans have in gaining access to needed health and social services, particularly for those homeless veterans who often have complex housing, employment, medical and mental health problems.

On June 24, 1985, at the urging of Representative Boxer, Representative Bob Edgar, the Chair of the House Veteran's Affairs Subcommittee on Hospitals and Health Care, held hearings in San Francisco, at which representatives of the Veterans Administration (VA), veterans organizations, and the Department of Public Health offered testimony on the health and social problems of veterans. At those hearings, Health Commissioner James Foster, testifying on behalf of the Department of Public Health, reviewed the problems of homelessness and inadequate health services for veterans. Commissioner Foster concluded that federal, state, and local governments, together with community organizations, should be working cooperatively to address these problems. Commissioner Foster then committed the Department of Public Health to initiate those joint efforts.

On June 26, 1985, the Director of the Veterans Administration Medical Center, Commissioner Foster, and the Director of Planning for the Department of Public Health met to discuss joint planning efforts and closer coordination of services. One result of the meeting was a proposal for a Joint Veterans Task Force to carry out that charge.

After the first meeting, the Task Force identified the following as its goals:

1. Develop a profile of veterans' health and social problems;

2. Identify the range of resources (providers and services) that currently exist;

3. Develop a joint proposal for a pilot project to address those areas of the greatest unmet need.

The Task Force has already developed a "concept paper" containing its findings in response to goals (1) and (2), above, and outlining a proposed pilot project in response to goal (3). This proposal, as drafted by Swords to Plowshares, attempts to incorporate the findings and recommendations resulting from the Joint Task Force's work.

B. SWORDS TO PLOWSHARES

Swords to Plowshares was founded in 1974 as a veterans self-help organization, in response to the unmet needs of Vietnam-era veterans. It was clear to the founders, who were former Vietnam combatants, that the experiences of Vietnam veterans differed from veterans of other eras. As the pioneer organization concerned with these issues, Swords remains to this day a community-based organization committed to unlimited accessibility and a peer approach -- "Vets helping vets". Swords offers a variety of services free of charge to all veterans, with a continuing emphasis on those who served during the Vietnam-era.

Among the many services Swords to Plowshares provides veterans are:

Counseling for Vietnam-era homeless veterans: Community Mental Health Services (CMHS) has subcontracted with Swords to Plowshares to provide client services and mental health promotion services to 200 homeless veterans in need of mental health care. Under this program, Swords provides emergency food, clothing and shelter assistance, individual and group counseling, and referrals and advocacy to other service providers.

Employment Services/On the Job Training (OJT) Program: The San Francisco Private Industry Council (PIC), with the Department of Labor (DOL) funds provided under the Job Training Partnership Act (JTPA), Title IIA, subcontracts with Swords in order to place 60 economically disadvantaged and long-term unemployed veterans into OJT positions each year.

Employment Services/Pre-vocational and Job Placement Program: This is another DOL program (JTPA Title IV(c)) administered by PIC and subcontracted to Swords to Plowshares. Eligible veterans are either Vietnam-era, service-connected disabled, female, or recently separated from the service (within the past 12 months). Swords contracts to provide 200 veterans general support in the form of basic survival needs, income maintenance and readjustment counseling. Of this number, 100 receive employment counseling, job readiness workshops, and individual job search assistance, with the goal of placing at least 42 veterans into private unsubsidized jobs.

Legal Counseling: Swords provides legal counseling, referral and representation for Bay Area veterans before the Military Discharge Review Boards and the Veterans Administration on a case by case basis.

Sixteenth Street Hotel: Swords is a member of the Emergency Shelter Coalition that operates the 16th Street Hotel. Ten to twelve of the rooms in this 50 room hotel are set aside for homeless veterans.

III. THE NEED

A. A PROFILE OF HOMELESS VETERANS

The findings of the Joint Veterans Task Force can be summarized as follows:

1. The homeless problem is not unique to San Francisco; it is a national problem because homeless people are found across the country.

2. Two 1985 surveys of persons residing in San Francisco's homeless shelters revealed that veterans comprised 29.7 per cent of the homeless in April, and 31.3 per cent in October. A survey of "street people" conducted at five San Francisco locations in September 1985 revealed that 36.4 per cent of the respondents were veterans.

3. Both locally and nationally, veterans have been recognized as a distinct subset within the homeless population. Distinguishing characteristics of homeless veterans in San Francisco include:

   a) 86 per cent of the veterans in San Francisco shelters had held jobs for more than one year before becoming homeless.

   b) 78 per cent claimed to have a "marketable skill"; however, only 6 per cent reported some level of income from employment.

c) Nearly 31 per cent of the homeless veterans reported permanent physical disabilities.

d) 25 per cent reported having mental health problems.

e) Over 45 per cent reported some level of alcohol abuse; and 19 per cent reported "severe" alcohol problems.

f) 24 per cent reported problems of drug abuse.

g) Veterans self-reported needs include:

Housing	21.4%
Employment	16.0%
Clothing	10.4%
Food	10.4%
Alcohol/drug services	9.9%
Medical services	7.4%
Veteran's assistance	7.4%
Job training	1.4%

h) The average age of homeless vets was 41.8 years, and the median length of residency in San Francisco was 3 years.

i) Nearly 79 per cent reported earning an Honorable Discharge, yet less than 5 per cent were receiving VA financial assistance.

j) Homeless vets were shown to have spent an average of 107 days in San Francisco's emergency homeless shelters.

B. RESOURCES FOR HOMELESS VETERANS

Social and health services available to meet the needs of homeless veterans include:

1. VA Medical Center (VAMC)

The VA provides comprehensive inpatient and outpatient health services to eligible veterans at the local VAMC at Fort Miley. Eligibility depends upon, among other things, the veteran's status (type of military discharge, etc.) and on whether the veteran's disability is service-connected or not.

2. VA Regional Office (VARO)

The VARO administers a variety of veteran benefit programs including: disability compensation, pensions, education and training, home loans and others. VA Benefits Counselors and recognized veterans service organization representatives provide limited assistance to veterans seeking to obtain these benefits. (Only veterans organizations "recognized" by the VA may offer benefits assistance to veteran claimants.) In establishing entitlement to and eligibility for a particular benefit, however, the veteran has the burden of proving eligibility. Furthermore, the VA determination is final; there is no process for judicial review of VA decisions regarding veterans' eligibility and entitlement to benefits.

3. The Vet Centers

The San Francisco Vet Center and its satellites are responsible for providing readjustment counseling services to

Vietnam-era veterans in the counties of San Francisco, San Mateo, Marin, Sonoma, Napa, and Mendocino. Services which the Center provides are individual, couple, group and family counseling; as well as follow-up of clients at the various VA Hospital, Mental Health, or Substance Abuse Programs.

4. Shelter Providers

Since December 1982, it has been the official policy of the City and County of San Francisco to provide shelter to anyone who requests it. Through the combined efforts of the Mayor's Office, the Department of Social Services, and several community agencies, more than 3,000 people are sheltered nightly. The Homeless Shelter Providers Coalition, a group of approximately 30 shelter directors, shelter staff, and representatives from the Department of Public Health, Department of Social Services, Social Security Administration, veterans organizations, community agencies, and other interested parties has been meeting weekly for over three years to plan and coordinate these shelter services.

5. Health Care for the Homeless Program

San Francisco has been chosen as one of 18 cities nationally to receive funds for the health care needs of the homeless. The goal of the grant is to provide direct health care services to the homeless as well as draw attention to the health care needs of the population. The clinical services are funded for four years through a grant of $1.4 million co-sponsored by the Robert Wood Johnson Foundation, the Pew

Memorial Trust, and the U.S. Conference of Mayors. The clinical services will be provided by two mobile multi-disciplinary health teams which will rotate between shelters in the Tenderloin and South of Market areas.

6. Swords to Plowshares

Swords is the first and the only remaining community-based veterans rights organization. Swords provides a variety of services with special emphasis on the disadvantaged and the troubled, including the homeless. Swords's services have been described above in greater detail. Swords has been designated by the Joint Veterans Task Force to be the agency responsible for operating the transitional housing facility and implementing the support services program for homeless veterans which is described in the following section.

IV. PROPOSAL: RESPONDING TO THE NEED

Most of the chronic needs of the homeless population -- emergency shelter, physical and mental health care, and basic survival -- are addressed, on a short-term basis, by existing services. The greatest unmet need of homeless veterans as determined by the Joint Veterans Task Force is for assistance to break out of the dependency on short-term emergency services. Without such a program, many homeless vets are caught in the "revolving door syndrome" -- dependent on emergency help from shelters and other providers which are unable to offer them the means to break the cycle. Thus, they end up back out on the street.

To respond to this need, the Joint Veterans Task Force has recommended the creation of a pilot program with combined public and private funding to provide medium- to long-term transitional housing in conjunction with support services. The program specifically targets that segment of the homeless veteran population that is employable and has the capacity to break through the pattern of homelessness.

As will be explained in detail below, this proposed program is not intended to be a residential treatment program for the mentally ill, or a warehouse to store the chronic homeless. Instead, the program is designed to enable those who are capable of making the transition to self-sufficiency and an independent and productive life to do so.

A. THE TARGET POPULATION

The target population for this supportive living program will be veterans who are homeless and veterans who are at risk of becoming homeless, and who may present a combination of personal, health, human and social needs, such as food, clothing, health care, counseling, and job development.

The proposed program is designed to assist veterans who are physically and mentally able to work, provided they receive the transitional housing and supportive services needed to stabilize themselves. An in-house survey of Swords's own client veterans (conducted between June 1985 and June 1986) showed an active caseload of over 200 homeless veterans physically and mentally able to work, but without affordable housing with which to organize a job search or maintain themselves while working. This target population needs, in addition to housing, physical and mental health services, substance abuse programs, legal assistance, benefits counseling, pre-job counseling, vocational rehabilitation and employment development. The proposed program will not provide these services directly, but will network with existing providers to assure that their services are accessible to homeless vets in the program. The provision of medium to long-term transitional housing in a supportive living program will allow these veterans to stabilize their lives and gain access to whatever services are needed to achieve self-sufficiency.

B. THE PROGRAM

This transitional housing and support services program will provide a supportive living environment rather than a treatment setting. The array of treatment programs, both inpatient and outpatient, in San Francisco and the surrounding area is sufficient to meet most of the health care (including mental health and substance abuse) needs of homeless veterans. The purpose of the proposed program is to provide a stable and supportive living situation for a period of 6 to 9 months. This will enable homeless veterans to stabilize their lives, to gain access to the services they need in order to become self-sufficient, and to form bonds and receive mutual support with their peers. After this transitional period of supportive living, they will be expected to move on. The goal of the program is to prepare homeless veterans to live independently. Among other features, this will include providing the tools to find and maintain their own living accommodations in the community.

The program is modeled on other residential hotel programs which serve distinct subsets of the population, e.g., substance abusers or the mentally disabled, but is modified in order to meet the needs of homeless vets. The experience of Swords to Plowshares demonstrates that while troubled and disadvantaged veterans can be a hard-to-serve population, veteran-sensitive programs and a caring peer approach to their problems are successful. This experience makes clear that veteran-sensitive supportive services for homeless veterans will better meet their needs.

Program Structure and Staffing

The proposed hotel program will be administered as an off-site "component" of Swords to Plowshares (analogous to the components of Swords's current operation, i.e., Employment, Human Services, Legal, Intake). A program director, who will report to Swords's Executive Director, will be responsible for supervision of program staff, overall program management, liaison among the program, Swords or other service providers, and city agencies, and program accountability.

For a 50 room hotel with full occupancy, there will be four support services staff (to be hired in stages as the hotel program fills up). Each support services staff person will have a designated caseload with primary responsibility for working with individual clients in the program. These responsibilities will include providing money management services (serving as co-payee) for those clients who need temporary help managing their own finances, and benefits counseling to assist clients in obtaining access to entitlement programs. Each of these four support services staff will, on a rotating basis, work a 3-11 evening shift one week per month, in order to provide more flexible and individualized counseling services to residents. These positions will require individuals who are aware of the needs of the homeless, sensitive to veterans issues, and knowledgeable of the social services system.

In addition, there will be a FTE intake/clerical position, who will conduct the initial intake process for new clients and provide general clerical support for the program.

Intake

The process of client selection for the transitional hotel will be one of the most critical of the program. Eligibility criteria will be clearly established to identify those homeless veterans who can benefit from the program.

A personal needs assessment will be conducted during the intake process to identify needs that can be met within the program, and by referral to other community resources. Those homeless veterans who are identified as candidates for the hotel program will meet with program staff for an in-depth evaluation of their needs and goals.

Those clients selected for the program will enter a case management agreement with program staff. This agreement will include the rights and responsibilities of the client, the staff, and the hotel. It will include a case plan setting forth the client's needs and goals, and a timetable to achieve those goals. Depending upon the client's financial status and history, a money management agreement may be included in his/her case plan in order to manage the client's funds and to make disbursements for necessary expenses.

Support Services

The primary responsibility of each staff member will be to provide one-to-one counseling, advocacy and liaison with other providers, and general oversight of their clients' progress toward the goals set forth in the case plan. Although the specific goals and needs of individual residents will vary, in general, the primary goals of the program's residents will be acquiring entitlement benefits, vocational assistance, and transition to independent employment and living situations. The staff's responsibility is to advise the residents regarding access to available benefits, resources and services and to serve as the clients'advocates for those services.

The functions of the support services staff will include:

- Intake screening and needs assessment;
- Development of resident's case plan;
- Regular review of plan with staff members and resident;
- Peer counseling for:
  - Entitlements and eligibility issues;
  - Money management planning;
  - Problems associated with personal crisis;
  - Failure to achieve agreed upon goals/objectives or otherwise comply with the case management agreement, including violation of "house rules";
  - Termination from the program for egregious violations (e.g., violence to others); and
  - Housing and job search(es) and transition to independent living
- Money management and rent collection;
- Referral and advocacy to other service providers for:
  - Food and clothing
  - Pre-vocational and vocational counseling, job training

- Legal services as needed (appeal of benefits denial, family law, etc.)
- Medical care
- Mental health services
- Substance abuse programs
- Group recreation and socialization activities.

Outreach

Swords to Plowshares anticipates that the majority of the residents of the program will be referred to the program by the homeless shelters, health and social service agencies, and by other veterans and homeless service providers. For example, Swords already has an active caseload of homeless veterans, many of whom would be appropriate candidates for this hotel program.

Support services staff at the hotel will maintain close liaison with staff at other service agencies. This will enable them to remain well informed about services available and to ensure that their clients can gain access to these services.

In addition, this will better enable the support services staff to identify potential new clients for the hotel program, and inform them about Swords's program and other community services.

Crisis Management

During regular working hours (Monday-Friday, 9-5), crisis response will be handled by a designated staff person. The rotating support services staff person who is on duty for the 3-11 evening shift will respond to any crisis that may develop at that time. At other times, the hotel desk staff would be expected to notify a designated, on-call staff person in the event of an emergency, and to follow procedures for calling police, paramedics, or mental health assistance. Staff will be provided with training in crisis management techniques, to be prepared in the event of a crisis with one or more residents.

Grievance Procedures

There will be a client grievance system instituted for residents who are dissatisfied with services or other program aspects. If program staff assigned to a particular resident are unable to resolve the problem, the client may contact the program director for resolution. The clients will be advised of rights and procedures, and the program staff will be responsible for seeing that all complaints are documented and resolved.

C. THE HOTEL

This proposal calls for the San Francisco Department of Social Services (D.S.S.) to designate one of the hotels in its housing and shelter program to provide transitional housing for the targeted population of homeless veterans.

Moreover, the proposal calls for D.S.S. to adjust its rent recoupment policy for this hotel program.

Specifically, the proposal requests a temporary suspension (up to 3 months) of the partial cost recoupment clause if a homeless veteran is receiving no income from work and/or public assistance at the time of enrolling in the program.

If a homeless veterans is receiving an income from work, or income from benefits such as G.A., S.S.I,. or the V.A. at the time of enrollment, then rent will be $180.00 to $240.00 per month, depending on the amount of income, as agreed upon with the program staff.

Under this agreement, neither Swords to Plowshares nor D.S.S. will recognize any indebtedness by the hotel program residents for the temporary suspension of the rent recoupment policy. A participant in the program will only become liable for rent when he/she receives an income from work and/or G.A., S.S.I., or the V.A. and/or after 90 days (3 months) whichever occurs first.

The hotel should provide approximately 50 rooms and would ideally be located in the San Francisco Mission District, near Swords's office. Proximity to Swords will facilitate management and supervision of the hotel program and will enhance the accessibility of Swords's services to hotel residents.

The Department of Social Services would lease the hotel on a year-to-year basis with an initial commitment of at least four years of program funding and support. The D.S.S lease agreement with the hotel owner will provide that the owner is responsible for ensuring that the facility meets building, fire and health code provisions with respect to electrical, plumbing, heating and ventilation, and general sanitary conditions. The lease will also require that the hotel owner provide kitchen facilities for residents, as well as rooms for group activities and socialization (such as meeting rooms, lounges, recreation room, dining room) and administrative office space for program staff. The lease agreement will further specify that the owner will provide personal liability and property damage insurance for the facility and the program's clients.

The D.S.S. contract will ensure that the hotel owner is responsible for property management including physical plant maintenance, housekeeping and janitorial services and security. As the agency responsible for implementing the program, D.S.S. will provide all program management, case management, and client supervision.

V. BUDGET

PERSONNEL

Program Director ($2000/month)	24,000	
Support Services Staff (4 FTE positions @ $1600/month)	76,800	
Intake/Clerical Assistant ($1400/month)	16,800	
Total Salaries	117,600	
Taxes/Benefits (@ 20%)	23,520	
TOTAL PERSONNEL		141,120

PROGRAM OPERATION

Insurance (estimated, 10,000 sq. ft. hotel)	6,000	
Travel	2,500	
Phone	1,200	
Supplies/postage	1,000	
Training/materials	1,000	
Accounting/fiscal reporting	4,800	
Program activities	6,000	
TOTAL PROGRAM OPERATION		22,500

START-UP COSTS

Equipment	6,000	
Furniture	3,000	
Supplies/printing	1,000	
TOTAL START-UP COSTS		10,000

TOTAL BUDGET		176,520

DEVELOPING A HOUSING PRODUCTION PROGRAM IN D.C.

Concept Paper
Prepared by the Washington Metropolitan Union of the Homeless
February 4, 1987

PURPOSE: The intent of a housing production program is to accomplish two principal objectives:

- Utilize and upgrade vacant housing units in the District,
- Employ persons from the construction trades who are currently homeless.

The benefits of accomplishing these objectives include the stabilization of families, especially as it affects children's health and education, an increase in the tax base, paid utilities and improved neighborhoods. A housing production program squarely confronts the root causes of homelessness which have led to a 500% increase in the last year: a crisis in affordable housing.

PROGRAM: The housing production program will be a pilot project initiated with a limited number of units. It will employ a group of screened and supervised homeless men and women with construction work experience. Rehabilitated units would be distributed among applicants who can cover the costs of maintenance and operations of the unit.

INSTITUTIONAL ROLES: Coordination among federal financing and housing agencies, District housing programs and private businesses will make the program function.

Very generally, we would look to the federal sector to make available housing units and the funding for rehabilitation. We would also look to the federal government for financial guarantees that would encourage private sector loans.

The District would serve as a conduit for receiving the properties and passing them on to the Union, which acts as property manager. The District would also provide to the Union a property which it can use as a base of operations to manage the rehabilitation of housing.

The Union would hold titles to the units, hire and supervise rehab. workers, and take responsibility for the selection of housing applicants.

The Union has found the private sector willing to provide technical assistance for inspecting properties and in supervising repairs to meet code specifications. Some have even committed to the provision of tools and materials.

Homeless unions take over empty VA housing

Nationwide actions part of 'Winter Offensive'

By Leslie Diane Feinberg

Members of local chapters of the Union of the Homeless boldly took over repossessed Veteran's Administration housing in cities around the country on Martin Luther King's birthday, Jan. 19. The actions are part of a coordinated "Winter Offensive" by the Union to win housing justice for an estimated 3 million homeless women, men and children in the U.S.

In Los Angeles, Chicago, Baltimore, and Washington, D.C., union activists braved arrests and police repression to seize buildings and help evicted families win back their housing.

In Washington, Union members still control the repossessed VA housing they took over last week. The city has agreed to a meeting Jan. 30 to discuss turning over 24 houses to the Homeless Union.

In a significant Phila victory for the homeless movement, the VA has agreed to sit down and negotiate with the dispossessed and to turn over lists of vacant housing to the Union. The city has reportedly agreed to acquire those homes and hand them over to the Union for distribution. In addition the city is discussing relinquishing 200 houses to the Homeless Union with the funds necessary to rebuild them. The Union plans to train the homeless themselves to make the necessary repairs, and then to distribute the housing to those who need it most.

National Union of the Homeless President Chris Sprowal told Workers World that this campaign to seize abandoned housing will be an ongoing effort. "It makes no sense for houses paid for with our tax dollars to be boarded up and empty when our people are homeless in the streets" he said.

He added that the movement has won the support of many working and poor people. In California, Sprowal said, "neighbors have poured out, bringing blankets and food, and making statements of support in the press."

In Los Angeles, four people died in the last two weeks during the severe cold snap. Due to relentless pressure from homeless activists, city officials were forced to open up City Hall at night for emergency shelter. Still, Sprowal pointed out, "That took a lot of protests and demonstrations."

Sprowal said he had just received a call from Oakland where homeless people excitedly watched news of the Jan. 19 actions. They are eager to form a local union chapter and have already begun to take over vacant housing. Sprowal said a group in Detroit known as the Homeless Society was also anxious to begin seizing abandoned buildings and wanted to know if they had to belong to the union to do it.

"We told them hell no," Sprowal said. "We encourage community groups. Don't let any damn building stand vacant. Take it!"

VA will try to sell homes to District for homeless

By Patrick Boyle
THE WASHINGTON TIMES

6F
1/21/87

The Veterans Administration said yesterday that it will, for the first time, try to provide housing for homeless people in the District.

The offer came after a forced takeover Monday of a vacant house in the 900 block of Eighth Street NE owned by the VA. Takeover was made by the Metropolitan Washington Union of the Homeless, which charged the VA with ignoring homeless veterans.

At a meeting yesterday afternoon, the federal agency said it will offer to sell the D.C. government some of its vacant houses, to be used to shelter the homeless, and will help them find jobs and homes of their own.

James Nalitz, a loan officer with the Washington regional VA office, said of the housing offer. "We don't have any real programs for housing the homeless. This will give us a chance to be somewhat involved in that."

> *"We do have the ability to sell some of these properties to the District . . . at a price we wouldn't offer on the open market."*

When the group broke into the boarded and vacant house, it vowed to keep it occupied with homeless people.

The VA again boarded shut the house yesterday morning when the six homeless men who moved in Monday night left it unattended, said Victoria Luna, secretary-treasurer of the union.

"There are a couple of dozen properties they're [the VA] looking at" to offer to the city, Ms. Luna said. "They said they will bring their prices so far down the city cannot morally not agree to it."

The VA took ownership of the Eighth Street house and others in the city through foreclosures on mortgages that it gave to veterans to buy the homes, Mr. Nalitz said.

The VA offer was made yesterday afternoon at a meeting between representatives of the VA and the union. VA Regional Director David Smith made the offer, Ms. Luna said.

"We explained what we can't do, which is let them have the property or rent it to them," said Mr. Nalitz. "We can sell it to them, but they can't afford it.

"We do have the ability to sell some of these properties to the District, probably at a discount, at a price we wouldn't offer on the open market."

He said the VA is compiling a list of repossessed houses it has had trouble selling, perhaps because they need extensive renovation, and will offer to sell them to the D.C. Department of Housing and Community Development.

Mr. Nalitz said he did not know how many vacant houses the VA owns in the District.

City housing department spokesman Oliver Cromwell, who had not yet heard of the plan when contacted yesterday, appeared pleased by the idea and said, "I'm sure we'd be able to listen to them."

"In the meantime," said Mr. Nalitz, "as a gesture of good faith, they [the union] agreed not to try to get back into our properties."

"The . . . union is going to be in on the negotiating" between the VA and the city government, Ms. Luna said.

The union, she said, can provide homeless laborers to renovate the houses. The union opposes the concept of emergency shelters for the homeless and wants to create transitional homes where people will stay while getting help finding jobs and long term housing.

The VA will try to arrange a meeting with city housing officials next week, Mr. Nalitz said.

MISS KAPTUR, CHAIRWOMAN

SUBCOMMITTEE ON HOUSING

AND MEMORIAL AFFAIRS

APRIL 22, 1987

OVERSIGHT OF VA HOME LOAN GUARANTY PROGRAM

THE SUBCOMMITTEE WILL BE IN ORDER.

THIS MORNING MARKS A CONTINUATION OF OUR LEGISLATIVE AND OVERSIGHT HEARINGS ON THE VA HOME LOAN GUARANTY PROGRAM.

ON APRIL 9, WE HEARD TESTIMONY FROM DIFFERENT PERSPECTIVES. THIS WAS MOST BENEFICIAL TO US, AND WE LOOK FORWARD TO HEARING THE VA'S COMMENTS ON MANY OF THE RECOMMENDATIONS MADE BY THESE WITNESSES.

TODAY, WE WILL BE CONTINUING IN A SIMILAR FORMAT. I WANT TO FOCUS NOT ONLY ON RECENT CHANGES WHICH HAVE AFFECTED THE PROGRAM, BUT ALSO ON ITS STRENGTHS AND WEAKNESSES.

I WANT TO KNOW WHO USES THE PROGRAM, WHAT IS THE AVERAGE USER'S INCOME, IN WHAT AREAS OF THE COUNTRY IT IS MOST UTILIZED, AND WHAT ARE THE LOAN AMOUNTS BY REGION.

IN ADDITION, I WANT TO KNOW ABOUT THE OPERATION AND MANAGEMENT OF THE PROGRAM. HOW CONSISTENT IS THAT MANAGEMENT WITH THE BENEFICIAL INTENT OF THE LAW?

THE LARGE INFLUX OF VA HOME LOAN GUARANTY APPLICATIONS LAST YEAR COUPLED WITH REDUCED STAFFING LEVELS RESULTED IN A SERIOUS DETERIORATION OF QUALITY AND TIMELINESS IN DELIVERY OF SERVICES TO THIS PROGRAM.

FORECLOSURES CONTINUE AT A HIGH LEVEL. ALTHOUGH THE VA'S EXPERIENCE IS COMPARABLE TO FHA AND CONVENTIONAL LENDERS, I WISH TO EMPHASIZE THAT THE VA PAID 29,438 CLAIMS IN CALENDAR YEAR 1985 AND 34,750 IN CALENDAR YEAR 1986. THIS IS AN INCREASE OF 18.1%.

IT IS THEREFORE MY INTENT TO LOOK INTO THE POSSIBILITY THAT INCREASED SERVICING ON LOANS COULD RESULT IN FEWER FORECLOSURES. I WANT TO LOOK INTO THE VA'S CURRENT PROPERTY ACQUISITION PROCEDURES AND SUBSEQUENT SALES POLICIES.

PROPOSALS LAST YEAR HAVE AFFECTED CREDIT UNDERWRITING STANDARDS AND WE WILL BE STUDYING ITS IMPACT. VA APPRAISALS WERE ALSO ADDRESSED LAST YEAR IN AN EFFORT TO ENSURE THAT THE APPRAISAL SYSTEM IS EFFECTIVE, RELIABLE AND TRUSTWORTHY.

IN ADDITION, I WANT TO ADDRESS THE MANUFACTURED HOME LOAN ISSUE. THE FORECLOSURE RATE ON LOANS TERMINATED FROM FY' 83 TO FY '85 WERE 5 TIMES HIGHER THAN THAT FOR CONVENTIONAL HOMES. THIS IS A SERIOUS PROBLEM. I RECOMMENDED TO MY WITNESSES THAT THEY COMMENT ON REQUIRING A DOWN PAYMENT ON MANUFACTURED HOMES A A POTENTIAL SOLUTION BUT WILL WELCOME ANY OTHER RECOMMENDATIONS THEY MAY HAVE.

I ALSO LOOK FORWARD TO RECOMMENDATIONS ON REQUIRING NEW UNDERWRITING ON VA LOANS WHICH ARE ASSUMED WHEN A VETERAN SELLS HIS HOME, THEREBY RELEASING THE VETERAN FROM FUTURE LIABILITY. MANY INSTANCES OCCUR WHEN A VETERAN BELIEVES HE HAS SOLD A HOME IN GOOD FAITH AND ENDS UP LIABLE WHEN IT GOES TO FORECLOSURE. GRANTED, HE DOES HAVE THE RIGHT TO REQUEST A WAIVER OF LIABILITY AT SUCH TIME OF SALE, BUT MANY HAVE EITHER FORGOTTEN OR STATE THEY ARE NOT AWARE OF THIS PROCEDURE. WITH THE RECENT INFLUX OF FRAUDULENT SCHEMES, IT WOULD MAKE GOOD SENSE TO ME TO REQUIRE SUCH NEW UNDERWRITING.

IT IS MY UNDERSTANDING THAT FHA RECENTLY IMPLEMENTED SUCH NEW REGULATIONS. I ORIGINALLY INVITED THE SECRETARY OF HUD, THE HONORABLE SAMUEL PIERCE TO TESTIFY ON THEIR FINDINGS SINCE THEIR CHANGE IN POLICY, BUT HAVE NOT YET HEARD FROM THAT AGENCY DESPITE REPEATED TELEPHONE CALLS.

THE SUBCOMMITTEE MAY ALSO CONSIDER INCREASING THE LOAN GUARANTY AMOUNT FROM $27,500 TO $30,000. THIS AMOUNT HAS NOT BEEN INCREASED SINCE 1980, AND HOUSING COSTS HAVE RISEN SUBSTANTIALLY SINCE THAT TIME AS OUTLINED BY SEVERAL OF OUR WITNESSES.

AS YOU ARE AWARE, THE VA HOUSING PROVISIONS CONTAINED IN THE DEFICIT REDUCTION ACT ARE SCHEDULED TO EXPIRE ON SEPTEMBER 30, 1987. SOME OF THE PROVISIONS WHICH MUST BE RECONSIDERED ARE THE 1% USER FEE AND THE CONDITIONS UNDER WHICH THE VA ACQUIRES A FORECLOSED PROPERTY VERSUS PAYING OFF THE CLAIM TO THE LENDER. I AM PLEASED TO NOTE THAT THESE PROPOSALS ARE ADDRESSED BY A NUMBER OF OUR WITNESSES.

IN TERMS OF OTHER BUDGETARY ITEMS, I STILL AM NOT SATISFIED THAT THE VA'S PROPOSED SALE OF ALL VENDEE LOANS WITHOUT REPURCHASE AGREEMENTS OR THEIR SALE OF THEIR $900 MILLION PORTFOLIO IS IN THE BEST INTERESTS OF THE PROGRAM. I PLAN TO PURSUE THIS MATTER FURTHER. THE GENERAL ACCOUNTING OFFICE CONCLUDED IN A SEPTEMBER 1986 REPORT, THAT THIS WOULD NOT PERMIT THE GOVERNMENT TO TAKE FULL ADVANTAGE OF EXISTING SECONDARY CREDIT MARKETS AND TO MAXIMIZE THE PROCEEDS OF LOAN SALES.

THE GENERAL ACCOUNTING OFFICE FURTHER STATES IN THE SAME REPORT THAT OMB'S PROPOSED BUDGETARY TREATMENT OF LOAN ASSET SALES WILL NOT ACCURATELY MEASURE THE ACTUAL SUBSIDIES TO FEDERAL CREDIT PROGRAMS AND WILL RESULT IN OVERSTATING THE SUBSIDIES ASSOCIATED WITH CREDIT PROGRAMS.

LASTLY, I WANT TO ADDRESS THE ISSUE OF HOMELESS VETERANS. THEIR PROBLEMS ARE COMPLEX. SEVERAL WEEKS AGO, THE WASHINGTON TIMES REPORTED THAT FOR THE FIRST TIME IN ITS HISTORY, THE VETERANS ADMINISTRATION IS IN THE PROCESS OF ESTABLISHING SHELTER PROGRAMS. WE WILL BE HEARING TODAY FROM THE VETERANS ADMINISTRATION ON THEIR OUTREACH EFFORTS AS WELL AS FROM SEVERAL OTHER WITNESSES ON THIS ISSUE.

BEFORE I CALL OUR FIRST WITNESS, THE HONORABLE MARVIN LEATH, I WANT TO RECOGNIZE THE RANKING MINORITY MEMBER OF THE SUBCOMMITTEE, THE GENTLEMAN FROM INDIANA, MR. BURTON, FOR ANY REMARKS HE MAY CARE TO MAKE.

DOES ANY OTHER MEMBER HAVE AN OPENING STATEMENT. IF NOT, I AM PLEASED TO WELCOME OUR COLLEAGUE FROM TEXAS, MR. LEATH, WHO WILL BE TESTIFYING ON H.R. 1452, A BILL THAT WOULD REMOVE CERTAIN RESTRICTIONS ON THE REFINANCING OF VA LOANS. MILITARY PERSONNEL AND OTHERS WHO HAVE BEEN TRANSFERRED ARE NOT ALLOWED TO REFINANCE UNDER CURRENT VA LAW. I AGREE WITH THE GENTLEMAN FROM TEXAS THAT THIS LAW NEEDS TO BE CHANGED AND COMMEND HIM FOR HIS LEADERSHIP.

PLEASE PROCEED.

Testimony of Congressman Marvin Leath

Subcommittee on Housing and Memorial Affairs

Arpil 22, 1987

Madame Chairwoman, I appreciate this opportunity to testify. Having once chaired this Subcommittee, I remain vitally interested in the VA Home Loan Guarantee Program.

This morning I wish to address a matter of concern regarding the restrictions placed on active duty military personnel in refinancing of VA loans. Military personnel who are transferred to new duty stations, as well as foreign service officers and diplomatic personnel, are not allowed to refinance their VA home loans because they do not reside at that home.

The recent decline in home mortgage interest rates has resulted in lowered housing costs for millions of Americans, including tens of thousands of veterans. I have received many letters from servicemembers who are not able to take advantage of these lower interest rates because they are not physically present in the home. In fact, even if the servicemember's spouse and children reside in the home, they still are ineligible to refinance. The difference between mortgage payments on a loan at 8 1/2 percent compared to a loan at a much higher rate, say 13 percent, could mean a hundred dollars a month or more for a veteran homebuyer.

The current law needs to be changed. Many veterans with existing VA-guaranteed loans have refinanced their mortgages, but active duty military personnel are not able to do that. So, I have introduced HR 1452, a bill which would change the current law to allow active duty personnel to refinance through the VA. It just makes all the sense in the world that a person with a lower interest rate is much less likely to default. Why not guarantee a safer loan? Everybody benefits. The veteran get lower house payments, fewer individuals default on mortgages and the government gets additional revenue from the VA funding fee, which is one percent.

Again, thank you for allowing me to discuss this concern with the Subcommittee.

STATEMENT OF THOMAS E. HARVEY
DEPUTY ADMINISTRATOR
VETERANS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON HOUSING
AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
APRIL 22, 1987

Madam Chairwoman and Members of the Subcommittee:

In the months since my confirmation as Deputy Administrator, perhaps the most troublesome experiences I have had have been my visits to homeless shelters in our major cities. There I witnessed and came to better understand the tragedy we call "homelessness," and I carry with me the faces of men and women robbed by that experience of that most basic right--human dignity. Many of those faces testify to such grim realities as mental illness, alcoholism, and disability--gripping problems even for those who have family support, employment, and a home. Among the homeless are fellow combatants of mine from Vietnam, from a conflict much of our nation tried to forget. We know that the ranks of the homeless also include formerly proud veterans of earlier, more popular wars.

We welcome the visibility that congressional concern regarding homeless veterans has given this issue. It makes our job of mobilizing the VA an easier one. And I'm pleased to tell you that it's my sense that VA is throwing its people-power and expertise into this battle. There's more to be done. But it's a battle we can't afford to lose.

In all candor, we don't know the numbers of eligible, unserved veterans among the homeless, but any number is intolerable. But we also can't wait until we get more data. The battle must be joined at each VA regional office, each medical center, each vet center. Although we at Central Office must provide leadership, I'm pleased to tell you that we have also embarked vigorously on what I think is an important effort to set up a program for homeless chronically mentally-ill veterans under Public Law 100-6. Under this initiative, more than 40 of our medical centers, which submitted proposals, including our Washington, D.C. VA Medical Center, are being funded (through monies transferred to VA under P.L. 100-6) to conduct vigorous outreach efforts in shelters and other settings aimed at providing community-based psychiatric residential care to treat homeless veterans who suffer from chronic mental illness. Significantly these proposals were designed in coordination with local communities and particularly with coalitions of public agencies and voluntary organizations which address the problems of the homeless. These demonstration projects are therefore shaped to address local needs, to care for homeless veterans within their communities, and to provide a case management approach which allows continuity from the point of outreach to follow through. We hope to have this exciting program on track within a matter of weeks, and not only to have a real impact in the months ahead but to gain substantial data on the problem.

The housing arena is also a critical one, which I know your subcommittee will examine very carefully. In that connection, Madam Chairwoman, you asked that we comment on provisions of S. 477, a bill which was recently passed by the Senate.

HOUSING

Madam Chairwoman, the Veterans Administration supports the idea inherent in S. 477 that carefully selected real property acquired through foreclosures of VA guaranteed loans be put to use in the effort to assist homeless veterans. Certain general Principles must guide our actions in this area. First, we must respect the concerns and have sensitivity to the former "veteran" owners. Second, any decision to transfer property to assist local housing authorities and nonprofit organizations must take into account that homeless veterans are often multiply disadvantaged individuals, lacking not only shelter but also food, clothing, medical services, and social supports. Consequently, only those properties in more centralized areas with existing community services are likely to be considered by local communities. Third, the VA has the responsibility to ensure that the Loan Guaranty Revolving Fund operates in a responsible and efficient manner. With these principles in mind, a carefully supervised pilot demonstration could be implemented.

Let me say at the outset that we do give every reasonable and humane consideration to avoid homelessness for those who have lost their homes through foreclosure of a VA guaranteed mortgage. VA takes into account the physical condition of the veteran and immediate family members who occupy a property, the effects of eviction on the family at an inappropriate time during the school year, the season during which the veteran will be requested to vacate, and the likelihood of a repurchase by the veteran if his/her financial situation has improved since the foreclosure action. Veterans are given very reasonable periods of time to locate alternative housing which is both suitable and affordable. Thus, if Congress were to enact a provision of this kind, it would be imperative to administer such a program with sensitivity to the views of the veteran community at large.

VA has, in the past, offered properties for sale to local housing agencies which were seeking properties for use as low income housing. As part of our operating procedures, when it is determined that local government agencies and nonprofit housing organizations who wish to purchase VA properties are not able to bid in competition with the general public, we permit local entities to purchase properties prior to offering them for sale. In a similar vein, VA currently participates in urban homesteading programs which make certain VA properties obtained through the home loan guaranty program available to local communities for use by lower income individuals. While that program does not directly provide housing for the homeless, it indirectly helps by increasing the stock of lower income housing. The VA has transferred approximately 500 properties to HUD for use in the Urban Homesteading Program. HUD then transfers the properties to Local Urban Homesteading Agencies.

If a program were begun, it is important that full ownership of properties be transferred to the administering Agency and that reasonable criteria be developed to determine what properties could be made available. VA currently owns approximately 21,000 single-family dwellings which were acquired as a result of foreclosures of VA-guaranteed loans. These properties average 9 months from acquisition by VA to sale. The income from the sale of these properties is the main source of funds used to pay expenses of the Loan Guaranty Program. It would not be appropriate for VA to dispose of properties which have potential for sale, as this could result in a need for increased appropriations for the Loan Guaranty Program. However, there are certainly some properties which do have potential for use in a local program to house homeless veterans.

Finally, we note that S. 477 provides for a continued VA interest in the properties transferred. We believe it would be in the best interest of both VA and the homeless organizations for these properties to be transferred free and clear.

PILOT PROGRAMS

Other provisions of S. 477 would direct the Administrator to conduct a 2-year pilot program in ten geographic locations to evaluate various activities which may be of assistance to homeless veterans. Activities which would have to be undertaken and assessed, other than those otherwise authorized by law, are: designation of individuals at VA facilities to coordinate efforts on behalf of homeless veterans; authorization for VA employees to assist and cooperate with organizations providing counseling, job training, and housing assistance to homeless individuals; and encouragement of VA employees to voluntarily assist homeless veterans and their families and to use otherwise unemployed VA resources and facilities where cost to the government would be minimal. This provision would also call for regulations to ensure that employees are not coerced to participate in volunteer activities.

In addition, the bill would establish new reporting requirements having to do with homeless veterans. It would require VA to describe all efforts the Agency has taken in fiscal years 1986 and 1987 to assist homeless veterans under our Outreach Program. The report would be required to include an evaluation of the effectiveness of those efforts, and a description of any VA plans to expand such efforts. The measure would require a second report, to be conducted in coordination with the Departments of Labor, Defense, Health and Human Services, and Housing and Urban Development and submitted within 6 months. This provision calls for a comprehensive compilation of statistical data on homeless veterans to include data on the numbers of veterans in the homeless population, the service dates of those individuals, utilization of veterans benefits by homeless veterans, and eligibility for veterans and Department of Labor benefits by such persons if they are not receiving benefits.

Madam Chairwoman, it has been our experience that activities which coordinate the resources of all relevant government agencies, charitable organizations, and community volunteers are most productive and beneficial. In our view, the unifying theme associated with these efforts should be integration with community leaders and resources. On a national level we are trying to carry out those principles, as well as to foster their application at the facility level.

Significantly, VA participates on a Federal Interagency Task Force on the Homeless which is devoted to removing obstacles to, and facilitating, Federal responses to the issue of homelessness. For example, along with other task force members, VA has joined with HUD and the Robert Wood Johnson Foundation in a 9-city model project designed to determine appropriate comprehensive care for the chronically mentally ill homeless. In addition, we are working with the Department of Labor in their 10-city project, Jobs for Homeless Vets. This initiative seeks to locate, rehabilitate, and employ hard-to-reach homeless veterans. VA has named 30 staff to coordinate our Agency's efforts with the local work groups. The program will deal with the comprehensive needs of these veterans, including medical or mental health care and substance abuse. It will focus on outreach, the use of available programs, and better linkages with the private sector.

At the local level, many of our facilities have already taken initiatives on behalf of homeless veterans of the kinds envisioned in section 102 of the bill. Social workers at our medical centers, for example, have played a coordinating role in working with representatives of the homeless. VA staff have visited shelters to offer evaluation and referral services to veterans, often on a voluntary basis. Social workers and counseling specialists have been among VA staff members who have met with community officials and heads of agencies providing services to the homeless.

More specifically, VA regional offices at San Francisco, Atlanta, Boston, and Phoenix are among many of our fine facilities whose veterans service officers are members of local task forces on the homeless. Veterans Benefit Counselors from those facilities have been working with local shelters to explain available VA services and set up referral networks.

Our medical centers are also playing an important role in pilot efforts to assist the homeless. For example, in Albany, through a VA Social Work Service initiative involving the Albany House Authority, County Department of Social Welfare and the Travelers Aid Society, they are using five studio apartments as transitional housing for otherwise homeless veterans. A total of 35 veterans have been served by this program to date. In Bay Pines, Florida, the Chief, Social Work Service organized a coalition of social service, civic organizations and religious representatives to coordinate and plan for the provision of housing, counseling and minimal health care for homeless individuals. In Washington, D.C., VA benefits counselors, Vet Center counselors and social workers, are visiting shelters to screen veterans for possible benefits, offer rehabilitation and employment counseling. Veterans found in need of medical assistance are transported to the VAMC. The hospital is currently completing a demographic survey of the veteran homeless to determine the comprehensive needs of this population. In Cleveland, VA's Chief of Social Work Service serves on the governance board of the Health Care for the Homeless Project, a Robert Wood Johnson Foundation Grant administered by the Federation for Community Planning.

In view of ongoing initiatives that many of our facilities have established to assist the homeless, and the new effort we are launching to assist chronically mentally ill homeless veterans, we object to legislation to mandate pilot programs.

OUTREACH

In the area of outreach, the focus of section 103 of S. 477, VA has conducted outreach programs for many years and has made efforts to reach homeless veterans. There are certainly many VA benefits which homeless individuals may avail themselves of if they are aware of their existence. For example, health care benefits are generally available to those in financial need who require inpatient care. The challenge is to identify the veterans, win their trust, and deliver needed services to those who are eligible.

We do agree with the underlying premise of section 103--that there is a need for a more comprehensive approach to our outreach efforts. In our experience, however, one of the most effective modes of outreach appears to be outreach to those working most directly with the homeless--shelter operators, charitable and service organizations, and social workers--who are able to make referrals to the VA. It seems particularly important, therefore, that our regional offices and medical centers continue to stress collaborative efforts within their communities. We should emphasize, however, that effective outreach is only the initial concern: effective follow-through is as significant. The process of getting maximum help from the VA requires one to report to medical facilities, drug abuse clinics, regional offices, etc.; the homeless veterans often fail to keep those appointments. However, given the exemplary record of voluntary service organizations in assisting veterans, we are confident we can overcome this problem through a program of volunteers sponsoring homeless veterans and assisting them through the system.

We generally share the concern underlying section 104 of S. 477 that it would be helpful to obtain more data on the numbers and characteristics of the homeless veteran population. As we have tried to emphasize in this testimony, VA has actively attempted to confront this problem, notwithstanding controversy surrounding its precise magnitude.

We are, of course, aware of, and my staff has been analyzing, the many surveys on the homeless that have been done in recent years. Those studies, including surveys in Los Angeles, New York and Ohio which sought data on veteran status, provide a basis through extrapolation to project estimates on the number of homeless veterans nationally. Certainly there are questions regarding the reliability of these data. Our best efforts to undertake still another study, however, would likely be compromised by the problems inherent in the task. Thus, the more specific the questions posed to the homeless population, the less likely the probable accuracy. In essence, we would anticipate that such a study would likely be similar to previous efforts which have simply provided a range within which the population would fall.

We firmly believe that the many Agency programs and initiatives underway will not only yield better data on the homeless veteran phenomenon, but will also make real inroads on this problem. We therefore object to section 103 in light of ongoing efforts.

CHRONICALLY MENTALLY ILL VETERANS

Section 105 of S. 477 would set spending caps for fiscal years 1988 and 1989 for the pilot program authorized just two months ago by Public Law 100-6, which allows VA to contract for halfway house type care for homeless veterans who are chronically mentally ill. The bill would authorize expenditures for the program of up to $10 million in each of fiscal years 1988 and 1989. As I mentioned earlier in this statement, the VA is just now implementing a $5 million pilot program using the new authority granted by Public Law 100-6. Projects at some 43 VA medical facilities have been identified for funding, and we anticipate that contracting with appropriate community based organizations will begin within the next two months. Outreach teams will identify eligible homeless veterans living in the shelters and on the streets, and attempt to bring them into a therapeutic setting where they can receive services to help them become reintegrated into society. A system is also being set up to gather data on how well the new programs will work. We at VA are enthusiastic about the pilot projects, but until these projects have been operating for some time they cannot be evaluated. It is too early, accordingly, to say whether additional monies should be committed.

Section 105 of S. 477 would also expand the scope of the requirement in Public Law 99-576, enacted last fall, which required VA to report on its use of home health services, halfway houses, therapeutic communities, and other similar facilities, to provide care for chronically mentally ill veterans. This provision would require that VA also include information and an analysis regarding hospital, domiciliary, and nursing home care provided to the chronically mentally ill in VA facilities, for the years 1984, 1985, and 1986, and an estimate of such care for 1987, as well as an analysis of the impact of VA's resource allocation model on the data. VA reporting systems have not attempted to discriminate and tabulate data on the basis of whether patients were "chronically" mentally ill or otherwise, and we cannot reasonably retrieve such data retrospectively. Considering that we will be gathering extensive data on the new pilot program for chronically mentally ill veterans, we see no need for this additional data for prior years.

CONVERSION OF UNUSED SPACE TO DOMICILIARY BEDS

Section 107 of S. 477 directs that the Administrator, by January 1, 1988, convert underutilized space in VA facilities in urban areas to 500 domiciliary-care beds to be used primarily for homeless veterans in need of domiciliary care. The mandatory conversion would be subject to the Administrator finding that such conversion is practical in terms of space being available, and being located in areas with significant populations of homeless veterans. The conversions could also not result in diminution of any conversion of beds already planned.

We frankly object to this provision which we view as an unduly prescriptive and potentially costly approach to the problem. Conversion of certain facilities in urban areas to accommodate provision of domiciliary care may be one feasible way to assist the homeless veteran. A measure requiring that VA establish a specified number of domiciliary beds by next January, however, simply deprives the Agency of the flexibility we need to address this problem in a manner that results in an optional solution.

I would next like to complete the record and briefly address two additional provisions of S.477 as passed by the Senate.

READJUSTMENT COUNSELING PROGRAM TRANSITION

Section 201 of S. 477 would postpone for one year the date by which the VA's Readjustment Counseling Program would have to be changed from a program taking place primarily in Vet Centers, to a program taking place primarily in VA medical centers. It would also postpone the dates by which the Administrator must submit various reports to the Veterans' Affairs Committees of Congress regarding that change, and the date by which VA must report on a study of the prevalence and incidence among Vietnam veterans of post-traumatic stress disorder and other postwar psychological problems in readjusting from service.

VA has no objection to enactment of section 201. We would note, however, that regardless of whether this provision is enacted, VA is planning to relocate a small number of Vet Centers from community based sites to VA medical centers during this fiscal year. Several factors make it possible to carry out the relocation. These factors include (1) the maturation and success of the vet center program; (2) the considerable changes which have occurred since 1980 in the relationship between Vietnam Era veterans and the VA system; and (3) the greater understanding on the part of VAMC staff of the needs of many Vietnam Era veterans and of the nature of the vet center program.

VETERANS JOB TRAINING ACT

Madam Chairman, S. 477 also contains a provision extending the Veterans' Job Training Act (VJTA) and authorizing additional funding for the program. The VA's Chief Benefits Director testified on this provision at a March 18, 1987, hearing before the Subcommittee on Education, Training and Employment. I have attached a copy of his statement at that hearing, but would like to again reiterate VA's opposition to the provision. As the Chief Benefits Director stated, the unemployment situation for Korean and Vietnam era veterans whom this bill was designed to help, has substantially diminished, and thus we oppose an extension of the program.

In closing, let me assure you, Madam Chairwoman, that VA is and will remain committed to assisting homeless veterans. We welcome the opportunity to work closely with the committee as we proceed in this important area.

STATEMENT OF R. J. VOGEL
CHIEF BENEFITS DIRECTOR
VETERANS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON HOUSING
AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
APRIL 22, 1987

Madam Chairwoman and Members of the Subcommittee:

It is a pleasure to appear before you this morning to discuss the operation of the Veterans Administration's housing program.

First Madam Chairwoman, I would like to bring to your attention a significant milestone for the VA Loan Guaranty Program. On March 6, 1987, VA guaranteed the 12 millionth home loan. In a ceremony in Phoenix, Arizona, Deputy Administrator of Veterans Affairs, Thomas Harvey, presented the keys to their new home to 29-year-old U.S. Army veteran, Jesse M. Giron, and his wife.

Next, Madam Chairwoman, I will bring you up-to-date on the current activity of the Loan Guaranty Program. A period of economic stability has permitted VA to keep the interest rate on guaranteed home loans within the 8-1/2 to 9-1/2 percent range for the past year. The current rate of 9-1/2 percent has been in effect since April 13, 1987.

During calendar year 1986, the VA guaranteed 351,242 loans, which is the highest since 1979; almost 74 percent of the loans were made without a down payment from the veteran purchaser. These no downpayment loans had an average purchase price and loan amount of $66,104. For those veterans who obtained loans with a downpayment, the purchase price averaged $92,056 with an average loan amount of $80,494. Veterans obtained 5,307 manufactured home loans in calendar year 1986. The average purchase price for manufactured homes was $22,659, with an average loan amount of $22,255. Since the Loan Guaranty program was enacted in 1944, it has assisted more than 12 million veterans to obtain housing. Mortgage credit totaling over $272 billion has been allocated to veterans; much of these funds may not have been made available without the benefit of this GI Bill program. Over $103 billion worth of these loans have been repaid in full as of last year.

Madam Chairwoman, we are continuing to experience a large number of GI loan defaults. During calendar year 1986, defaults averaged 15,066 per month, compared with 14,513 in calendar year 1985. Defaults reported appear to be remaining stable at relatively high levels.

As a result of the continued high level of defaults reported, there were 133,333 defaults pending as of December 31, 1986, an increase of 11.4 percent over the 119,717 defaults pending as of December 31, 1985. This, in turn, resulted in an increased number of foreclosures and claims. We paid 29,430 claims in calendar year 1985. This increased 18.1 percent, to 34,750 claims paid in calendar year 1986.

With regard to foreclosures, VA has taken steps to cut the high claim costs caused by undue delay in foreclosures. The Notice of Default and Notice of Intention to Foreclose have been combined in a single format to facilitate prompt action by lenders in terminating insoluble defaults. In addition, a procedure has been implemented to ensure that seriously delinquent loans which are not in foreclosure are reviewed and a cutoff date established to limit accrual of interest and additional charges if there is no supportable basis for extension of continued forbearance.

In an effort to reduce foreclosures, VA directed lenders to improve delinquent loan servicing. Lenders are now required to give the borrower written notice within 20 days after an installment is due and unpaid and follow up with an attempt at personal telephone contact. Current procedures also require that if no repayment arrangements can be made, the lender must attempt a face-to-face interview with the borrower before beginning foreclosure. The procedures are consistent with servicing standards set for conventional loans.

We will soon require lenders to report 90 day delinquencies to credit reporting agencies. This action will provide incentive to borrowers to reinstate their loans before delinquencies become serious. It will also make it difficult for borrowers who are seriously delinquent to further over-extend themselves through new credit.

In the area of credit underwriting we recently revised our standards to provide, on a regional basis, guidelines for the minimum residual income needed to qualify for a loan. We also instituted the use of a debt-to-income ratio to assess the risk of a loan. Riskier loans require additional review and justification if they are to be approved. While it is true that not all loan defaults and foreclosures can be related to underwriting (factors include changing economic conditions and changes in health or marital status) a need for improvement in our standards was seen. Early indications are that some veterans who would have qualified under the old standards may not be eligible for the same size VA-guaranteed loans under the new credit standards. It is not possible to quantify the number of veterans so affected, since some veterans may have been deterred from applying for loans and others may have chosen to purchase less expensive housing to assure that they would qualify for a loan. While some have expressed the belief that the new underwriting standards are unduly harsh, most program participants have been generally supportive of the new guidelines. The guidelines were intended to reduce the incidence of veterans being placed in homes which they could not afford. In fact, the new guidelines are still significantly more liberal than the underwriting requirements for similar conventional mortgages. It is important to remember that the VA has not provided a true benefit if the veteran is placed in circumstances where he or she cannot afford the home that VA has guaranteed. These veterans will lose their good credit rating and will also become indebted to the Government for any amount paid under the guaranty.

We do recognize the greatest impact of the revised standards will be on lower income veterans; however, it should be noted that a disproportionate percentage of veterans who lose their homes and have claims owing to the government also have been from the lower end of the market. For fiscal years 1980 through 1985, 48 percent of the loans guaranteed by VA were for loan amounts less than $55,000. During that same period loans in this category accounted for 63 percent of the foreclosures.

Steps are being taken to assure that qualified veterans have every opportunity to use their loan guaranty benefits. We have emphasized to both program participants and field station personnel that the new criteria are guides and failure to meet the criteria does not warrant automatic rejection of the loan. Instead, it calls for a closer look at the loan and justification of approval based on compensating factors.

One other change was recently made to the credit standards as to the value of military benefits and the difference they can make when calculating an applicant's residual income.

In the past, such benefits were treated generally as a compensating factor; however, as further recognition of the value of military benefits, field stations were recently authorized to reduce the residual income guidelines for military personnel and retirees with access to such benefits by a minimum of 5 percent if it can be shown that the benefits are utilized on an ongoing basis. We believe that this will alleviate the concerns of many program participants.
The quality of appraisals has been the focus of concern at the VA, in the housing industry, and in Congress.

It was also the subject of a report issued by the Subcommittee on Commerce, Consumer and Monetary Affairs chaired by Congressman Barnard. The VA has taken important actions to improve its appraisal system and is committed to continued efforts to ensure that the appraisal system is effective, viable and adequately protected from inappropriate appraisals and those who perform them. The VA is part of an interagency task force to look into the development of an appraiser certification and review system.

The VA was an integral member of the industry committee which convened over a three year period to develop a Uniform Residential Appraisal Report. We have adopted the newly developed form and are currently phasing in its use by all of our regional offices. The form is considered a positive step in the direction of improved appraisal quality and standardization of appraisal reporting. On March 5, Congressman Stan Parris introduced legislation, H.R. 1455, to give VA the authority to establish a direct appraisal system similar to the Department of Housing and Urban Development's "direct endorsement" program. The VA has proposed similar changes in its 1987 legislative package. We believe that a direct appraisal system will provide more timely service to veterans and would allow field stations to operate more effectively. In addition, the VA has updated its definition of "market value" which serves to guide appraisers when assessing the value of a property. This update is consistent with appraisal definitions used by FNMA and FHLMC and the major real estate appraisal organizations.

Madam Chairwoman, I am sure the subcommittee would also be interested in hearing of our current efforts in the area of Property Management. One provision of the Deficit Reduction Act of 1984, is the requirement that at least 25 percent of our properties be sold for cash during fiscal years 1985, 1986 and 1987. During fiscal year 1985, 27.5 percent of our total sales were for cash and during fiscal year 1986, we were able to increase this to 33.8 percent. Cash sales for fiscal year 1987 to date (through March) are 32.9 percent.

After a significant inventory reduction in fiscal year 1985, the nationwide property inventory experienced a net increase of nearly 2,000 properties in fiscal year 1986. Property sales remained at nearly the same high level in fiscal year 1986 (only 2 percent below the fiscal year 1985 mark) but property acquisitions increased almost 18 percent over fiscal year 1985 acquisitions.

The lack of an overall, substantial reduction in inventory during fiscal year 1986 can give an inaccurate impression that our nationwide sales effort has been sluggish. In fact, our property sales problems are now principally located in the "energy belt". For example, if 3 regional offices (Denver, Muskogee and Houston) had just been able to "stay even" by selling the same number of properties that they acquired during fiscal year 1986, the sales results at the remaining 46 regional offices would have given VA a net inventory reduction of 3,677 properties. Today's inventory of properties on hand would be 16,890, instead of 20,567. Of the 29,972 properties acquired in fiscal year 1986, 26 percent were acquired by these 3 regional offices, with 17 percent of the total acquired by the Houston office alone. These 3 stations now account for nearly one-third of VA's on-hand inventory.

These are hard-hit real estate markets, with record levels of foreclosures and properties available for sale. Many potential buyers are reluctant to buy properties, particularly if substantial cash outlays are required, for fear that real estate values have not yet bottomed out. Under these conditions, we cannot pretend to have found effective marketing strategies which others in similar circumstances have not found. In an effort to overcome these adverse market conditions in the Houston area, our regional office is working closely with an advisory council of private sector real estate brokers. Substantial price reductions are being made, and more public advertising is being done. More timely service is being provided for purchase offer processing and sales closings.

The amount of brokers' sales commissions has been increased from 5 to 6 percent. Additional personnel resources and contract money have been made available for property disposition. Auctions are being used to sell older properties. We have begun to see higher monthly property sales and purchase offers in the Houston office.

VA continues to acquire properties in these economically depressed areas because the level of loan terminations remains high. Foreclosures at our Houston, Waco, Denver and Muskogee offices totaled 2,450 in the first quarter of fiscal year 1987, compared to 2,429 in the first quarter of fiscal year 1986. Among these liquidations, there are still numerous instances in which, after considering estimated property acquisition and disposition costs, the net value of the property indicates acquisition is in the best interest of the Government. However, the number of no-bid cases increased significantly from 307 (12.64 percent of liquidations) to 862 (35.18 percent of liquidations) at these offices between the first quarter of fiscal year 1986 and the first quarter of fiscal year 1987.

We project a gradual decline in property inventory over the next few fiscal years. Our regional offices have been successful in selling properties (over 56,000 in the last two years) and in reducing the average time properties are held (from 10.6 months in fiscal year 1985, to 8.8 months in fiscal year 1986, to 8.2 months in fiscal year 1987 to date). The problem continues to be that the level of new acquisitions has been significantly higher than anticipated, especially in areas most affected by the severe economic downturn in the energy industry.

Our efforts to dispose of inventory properties will continue to be based on timely pricing revisions, increased public advertising, and more effective cooperation with real estate professional groups in local areas. In addition, we will be using public real estate auctions as a supplemental sales technique, where appropriate, to dispose of those properties in inventory for the longest periods of time. The agency's inventory reduction goals have been included in the performance standards of our regional office directors.

With regard to manufactured housing we recently completed a study of our manufactured home loan program. As a result of our study, we will be proposing changes intended to enhance the cost effectiveness of the program. Some may require legislation while others will be accomplished through regulatory and administrative changes.

We have also continued to work with the VA's Inspector General on their investigation into invoice padding on manufactured homes. To date, 11 manufacturers have been suspended from the program for 3 to 4 month periods and over $1.3 million has been collected in civil and criminal penalties. Civil recoveries are being credited, when possible, to the accounts of veterans, thereby reducing their debts.

Madam Chairwoman, in addition to the areas I have just commented on, you asked for our specific comments on a Legislative Agenda and Budgetary Items relating to the Loan Guaranty Program. I will comment on those now.

The first item on the Legislative Agenda was the proposal to require the underwriting of VA loans which are assumed and the concurrent release from liability of the original veteran owner. Similar proposals have been considered before and we continue to study them. Our initial review brings up both pros and cons, such as, the need for underwriting could increase the cost of the sale; an example of this is the Department of Housing and Urban Development's recent authorization of a processing fee, not to exceed $500, on assumed loans. The need to underwrite would also increase the time taken to consummate the sale. However, a review of the credit worthiness of a person assuming a VA loan would reduce the possibilities of the loan being assumed by an unqualified purchaser, and would decrease the possibility of default and foreclosure. Such a requirement would also make the VA program more consistent with the requirements of HUD's program.

Some proposals tie the release of liability to the underwriting. We would prefer that the release of liability be an option of the Administrator rather than automatically granted. There may be some cases where a marginal buyer is approved to prevent the original veteran-purchaser from having his or her loan foreclosed. In such an instance it might be in the best interest of the Government not to release the original veteran from liability.

The second item is a three-year extension of the requirement to collect a one-percent fee on VA guaranteed loans. While we favor extension of the fee, we believe it should be made permanent and increased to 2.5 percent. An increase in the fee is necessary to offset losses sustained by the Government due to the foreclosure of guaranteed loans. Since fiscal year 1978, over $2 billion in appropriations and transfers from other accounts have been necessary. The additional revenue from the increased fee will make the revolving fund self-sustaining without placing an undue hardship on veterans. An increase in the fee from 1 to 2.5 percent will have a very minimal impact on the ability of veterans to acquire homes. If the fee is financed over the life of the loan, which is the usual method of payment, and using the current interest rate of 9-1/2 percent, the mortgage payment on the average loan would increase by less than $9.

The third item on the Legislative Agenda is an increase in the maximum guaranty amount for conventionally built houses to $30,000. The present maximum guaranty of $27,500 provides a guaranty of over 38 percent of the 1986 average loan amount of $71,448. This is well above the 25 percent protection typically required by secondary market investors. The present guaranty amount is sufficient to support no downpayment loans of up to $110,000. We support the maintenance of the current guaranty amount.

The proposal to require a downpayment on manufactured home loans was considered during our study of the manufactured home program. We believe that a downpayment requirement would seriously diminish the viability of this program which primarily serves veterans at the lower end of the economic spectrum. As I mentioned, we will be proposing changes to the program which we hope, when implemented, will enhance the cost-effectiveness of the program, making downpayments on such loans unnecessary.

The last item on the Legislative Agenda would permit veterans who have been transferred and no longer occupy the home to obtain interest rate reduction refinancing loans. There was a similar proposal during the last session of Congress, S.2475, on which we commented unfavorably due to the non-occupancy by the veteran and our concern over creating an investment program rather than one aiding homeownership. After further study we realize that this proposal would benefit veterans, such as active duty military and foreign service personnel, whose jobs require periodic transfer. These veterans may continue to own a former residence to which they plan to return at some future time, e.g. after they retire. We therefore would not object to this proposal, if it was limited to one-time use for active duty foreign service and military personnel who certify that they intend to reoccupy the property in the future.

Madam Chairwoman, there were also two Budgetary items that you wished us to comment on. They are the sale of portfolio loans without repurchase agreements and the sale of $900 million of VA's loan portfolio over a three-year period.

The fiscal year 1988 budget submission contains a provision for the sale of vendee loans without recourse (repurchase agreement). As you know, vendee loans experience foreclosure rates three times that of guaranteed loans and four times that of conventional loans. Because VA sells these loans with recourse the VA frequently must repurchase, foreclose, and resell the property securing these loans. At this time, substantial servicing costs and property losses are incurred. We would prefer to sell the loans without recourse if we can obtain a reasonable market price in order to obviate future losses.

A sale of vendee loans without recourse was held on April 14. We are in the process of analyzing the results of that sale. We are committed to making nonrecourse sales work in fiscal year 1988, and to that end we are considering hiring a financial advisor and will work to explore new markets for these loans.

The fiscal year 1988 budget submission also contains a proposal to sell without recourse $900 million of VA's loan portfolio ($300 million each fiscal year 1988-1990). The receipts from these loan sales are projected to be $210 million each fiscal year. The financing needs of the program are such that $630 million in cash over the next three years would significantly bolster the Revolving Fund. In contrast, the cash flow from these poor quality loans is uncertain and could vary considerably in the future because nearly 2/3 of the loans slated for sale are in a state of chronic delinquency.

Madam Chairwoman, this concludes my statement. I would be pleased to answer any questions that you or any member of the subcommittee may have.

Office of the
Administrator
of Veterans Affairs

305AA

Washington DC 20420

Veterans
Administration

APR 29 1987.

In Reply Refer To: 26A2

Honorable Marcy Kaptur
Chairwoman
Subcommittee on Housing and Memorial Affairs
Committee on Veterans' Affairs
U. S. House of Representatives
Washington, DC 20515

Dear Madam Chairwoman:

In response to your letter of April 16, 1987, we are pleased to be given this opportunity to comment on various issues relating to the Loan Guaranty Program.

Enclosed are papers summarizing our views pertaining to each area addressed in your letter. We hope the information provided will be helpful.

We appreciate your interest in the home loan program and look forward to working with you and members of the Subcommittee and staff in the months ahead.

Sincerely,

THOMAS K. TURNAGE
Administrator

Enclosures

"America is #1—Thanks to our Veterans"

LOAN GUARANTY PROGRAM

Issue: VA Appraisal System

- o In his testimony Congressman Barnard stated that out of our list of 6000 fee appraisers, 1200 were suspended or disciplined for incompetency or unethical behavior in Fiscal Year 1986.

The 1200 figure utilized in Congressman Barnard's testimony was provided by the VA, but that figure does not solely represent suspensions or disciplinary actions for incompetency or unethical behavior. Rather, the 1200 figure represents the total number of administrative actions taken against fee appraisers during FY 86 including actions for unacceptable timeliness, for negative work quality findings not associated with incompetency or ethics, letters of admonishment and voluntary resignations. The figures for Fiscal Years 83 through 85 noted in the testimony did not include letters of admonishment and also do not solely represent actions relating to unethical behavior or incompetency. For FY 86, the total number of what are considered, and have previously been reported as, removal actions would actually be 443.

- o What has the VA done to address this problem and what are the disciplinary trends so far this year?

We do not have data which can be utilized to determine any disciplinary action trends during a fiscal year. The comprehensive report which our field stations prepare concerning their supervision of fee personnel is provided to us at the end of each fiscal year (Fiscal Year Summary of Supervision of Fee Appraisers). The VA has taken a number of actions to improve its appraisal system to ensure that it is adequately protected from poor quality or inappropriate appraisals and those who perform them. Many actions were in response to Congressman Barnard's Subcommittee Report and a VA Inspector General Audit Report on the fee appraisal system. Our field station guidelines concerning desk and field reviews were expanded in March 1986 with particular emphasis on program surveillance. Field stations have been reminded that proper documentation of field and desk review findings is of critical importance in supporting administrative actions against fee appraisers. The Fiscal Year Summary of Supervision of Fee Appraisers allows us to monitor field station supervision of fee personnel. We believe that with the program changes that we have implemented our field stations are more aggressively monitoring fee appraiser performance and are taking appropriate administrative actions when unsatisfactory fee appraiser performance is noted.

- Is VA considering licensing of fee appraisers?

If there is State or local requirement for licensing, VA fee appraisers must be licensed, but the VA does not license appraisers. We are not considering licensing as an agency requirement. We are, however, part of a task force looking into a national, industry self-regulated appraiser review and certification system to which all appraisers would be subject. It is possible that some form of licensing, state or national, may result from the task force findings.

- What has been the experience of the VA participation in the interagency task force in developing solutions to the appraisal problems?

The Interagency Task Force recommended by Congressman Barnard met for the first time on March 23, 1987. The professional appraisal organizations have formed an Ad Hoc Committee on Uniform Standards of Appraisal Practice which has been meeting separately, is drafting Self Regulatory Organization (SRO) procedures and standards, as well as model legislation, and intends to meet and share their findings and plans with the Interagency Task Force. The Ad Hoc Committee met on April 4 and 5 and intends to meet with the Interagency Task Force in May. The VA is optimistic that these meetings will ultimately result in some form of a national system which will provide control over all appraisers.

- How exactly are appraisers selected and are there changes that could be made in the process to alleviate these problems?

The selection of fee appraisers is under the jurisdiction of our regional offices. Selections are made based upon the need in a particular geographic area and are based upon prescribed qualifications. The VA's qualification requirements for fee appraisers are found in VA Regulation 38 CFR 36.4339 and provide as follows: "To qualify for approval as a designated fee appraiser an applicant must show to the satisfaction of the Administrator that his or her character, experience, and the type of work in which he or she has had experience for at least 5 years qualifies the applicant to competently appraise and value within a prescribed area the type of property to which the approval relates." As previously stated the VA does require its fee appraisers to comply with local or state licensing requirements, if any.

In addition to 5 years experience, a credit report and letters of reference are required and the appraiser must acceptably complete a written examination and a sample appraisal. We are attaching a copy of DVB Circular 26-80-12 which contains VA procedures for processing applications for designation as a VA fee appraiser.

Upon being placed on the VA roster, each fee appraiser is given a training kit which includes information and guidance material to assist the appraiser in understanding VA requirements, methods, and procedures. Our field stations are expected to hold training sessions for fee appraisers on a periodic basis, and also to counsel them on an individual basis when deficiencies in appraisal reports are noted by staff reviewers.

We have determined that there are improvements which could be made to our fee personnel policies and procedures and are currently in the process of revising our fee personnel circular. The revisions are now in the process of being drafted. Prior to implementation the procedures must be placed in the Federal Register for public comment.

We acknowledge our appraisal system has experienced some difficulties which have required some refinement to the system. We also firmly believe, however, that our appraisal system is basically sound and prevents many of the problems which have been experienced by others in the housing and lending industry. Briefly , the VA fee appraisal system:

- Provides qualification standards which an appraiser must meet in order to enter the system.
- Allows VA to control appraisal assignments. (Appraisers are selected randomly by VA, minimizing pressure by parties with a vested interest in the transaction thereby deterring "client advocacy" appraisals).
- Provides an effective discipline mechanism (VA controls fee appraisers and can remove them when necessary).
- Maintains appraisal quality standards through desk and field review of appraisal reports internally by VA staff personnel.

Department of Veterans Benefits
Veterans Administration
Washington, D.C. 20420

DVB Circular 26-80-12

March 18, 1980

PROCESSING OF APPLICANTS FOR FEE APPRAISER AND COMPLIANCE INSPECTOR ROSTERS

1. Purpose. The purpose of this circular is to announce new procedures for processing applications and appointing appraisers and compliance inspectors to fee rosters. The procedures for the supervision and removal of such fee personnel are also covered.

2. Responsibility for Selection, Designation and Separation of Loan Guaranty Fee Personnel. DVB field stations will be responsible for the selection and designation of qualified persons to Loan Guaranty fee rosters and for the removal of such designated personnel as may be in the best interest of the VA. The Construction and Valuation Section, Loan Guaranty Division, will handle all matters related to fee appraisers and compliance inspectors; i.e., maintenance of fee personnel files, receiving and responding to related correspondence, making arrangements for and administering written examinations, managing the roster of appraisers and compliance inspectors, etc.

3. Fee Roster Committee. A Fee Roster Committee will be established consisting of the Loan Guaranty Officer, the Assistant Loan Guaranty Officer, and the Chief of the Construction and Valuation Section. If there is no Assistant Loan Guaranty Officer position at a station, a section chief in the Division will be designated by the Loan Guaranty Officer. The Loan Guaranty Officer will be the Chairperson of the committee.

4. Qualification Requirements

a. General Requirements for Appraisers and Compliance Inspectors

(1) Applicants must have complied with local or State licensing requirements, if any, prior to designation.

(2) Designation will not be made in those instances in which an applicant's employment or other position may result in a conflict of interest between such position or employment and performance as a fee person with the VA, or when embarrassment, adverse public relations or adverse publicity concerning the applicant or the VA might result.

(3) An individual may be designated to more than one fee roster.

(4) A satisfactory credit report must be obtained for each applicant before designation.

(5) Employees of Federal or quasi-governmental organizations; i.e., FNMA (Federal National Mortgage Association), FHLMC (Federal Home Loan Mortgage Corporation), Postal Service, will not be approved by VA as fee appraisers or compliance inspectors. Employees of local

(6) The procedures outlined in subparagraph (4) above will also be applicable to mobile home appraisers. However, the performance test will be a demonstration appraisal utilizing VA Form 26-8712, Mobile Home Appraisal Report, instead of VA Form 26-1803, unless the report is submitted in narrative format. Additionally, the instructional and procedural material necessary to complete the appraisal will include a sample appraisal on VA Form 26-8712, if that form is to be used in the performance test.

NOTE: The requirement for a credit report and letters of reference will not be applicable in the case of an officer or employee of a supervised lending institution who is designated to make appraisals as provided in VA Regulation 4340.

c. Compliance Inspector

(1) To qualify for designation as a VA compliance inspector, an applicant must have at least 5 years of experience which would competently qualify him or her to make inspections within a prescribed area of the type of property to which the approval relates. To be considered qualifying, the experience must have been of one of the following types or a combination thereof:

(a) As a construction inspector of real properties for the purpose of determining compliance with construction requirements established by law;

(b) As a construction engineer;

(c) As an architect;

(d) As a superintendent of construction in large housing developments;

(e) As a builder of residential or commercial properties; and/or

(f) In other capacities of a like nature in which the applicant has demonstrated an ability to perform the duties of a compliance inspector.

(2) A written test and a performance test will be given the applicant in order to evaluate the applicant's capabilities. The written test will be prepared by the station and will test the applicant's knowledge of construction techniques and terminology. The performance test may be a demonstration inspection on VA Form 26-1839, Compliance Inspection Report. The station may waive the written test in cases in which it is determined that the applicant possesses the desired knowledge. Completion of the demonstration inspection, however, will not be waived. Prior to the performance test, the applicant will be furnished with instructional and procedural material necessary to complete the inspection.

filed alphabetically by name in an "active" or "inactive" file. An "active" file for this purpose should contain folders of fee personnel who are on approved rosters, regardless of degree of activity.

b. A separate performance file will be maintained for each individual on a fee roster. The file will contain copies of correspondence relating to the individual's performance, such as field reviews, late notices, letters, etc. Any material in this file more than 2 years old can be destroyed. Detailed records of errors, delays in production, incompetence, pertinent interviews, letters of admonishment, and other similar material concerning designated fee appraisers and compliance inspectors shall be maintained to justify and support any action for disqualification.

c. Disposition of folders described above shall be in accordance with Records Control Schedule VB-1, part I.

8. Private Interests of Fee Appraisers and Compliance Inspectors

a. Except as may be otherwise expressly authorized by VA regulations, instructions or directives, designated or approved fee appraisers and compliance inspectors shall not engage in any private pursuits in which there may or will be:

(1) Any connection established that may result in a conflict between the private interests of the VA fee appraiser or compliance inspector and his or her duties and responsibilities to VA and veterans.

(2) Any connection established that may tend to bias his or her judgment as a VA fee appraiser or compliance inspector.

(3) Any circumstances in which information obtained from or through a VA assignment to appraise or to make compliance inspections will be used to the detriment of the Government or veterans.

b. The foregoing statement of policy and standards are intended to preclude any fee appraiser or compliance inspector from:

(1) Selling land to a builder or sponsor and then making an appraisal or compliance inspection of dwelling units erected or to be erected thereon which are or will be purchased by veterans with guaranteed, insured or direct loans.

(2) Owning an interest in, being employed by, or operating an architectural, engineering, or land planning firm which renders services to builders or sponsors and later accepting an assignment from VA to appraise or inspect dwelling units built or to be built by a particular builder or sponsor for whom architectural, engineering, or land planning services have been or are being rendered by the firm in which the fee appraiser or compliance inspector has employment or an interest.

f. When it is disclosed that a fee appraiser or a compliance inspector has any private pursuits or interests, such disclosure shall be carefully evaluated and investigated, if such action is deemed necessary. If any private pursuit or interest disclosed conflicts with VA standards, the particular fee appraiser or compliance inspector shall be promptly informed and immediate appropriate action taken; e.g., withdrawing pending assignments or withholding further assignments. In any case in which evidence is obtained indicating a contravention of VA standards, it will be determined whether or not the facts warrant removal of the appraiser or compliance inspector. If so, removal action shall be initiated as quickly as possible.

9. Disciplinary Actions

a. Assignments for a period up to 2 months' duration may be withheld by the Chief, Construction and Valuation Section for cause. Notice of such action will be given in writing to the individual and will specify the reasons for the action. The fee person will be notified that written appeal from the action can be made to the Fee Roster Committee. Appeals must be accompanied by specific evidence showing the action by VA was not justified. Assignments will not be made during the appeal process. The Fee Roster Committee must consider the appeal within 2 weeks, make its determination as to whether the action should be sustained, modified or rescinded and notify the individual in writing.

b. Permanent removal of fee personnel may be made by the Fee Roster Committee for cause. The individual will be notified in writing of the action and will be given the reason(s) which formed the basis for the action. The individual will also be advised that if he/she believes the action is not warranted, he/she may ask to appear before the Fee Roster Committee and present evidence to show the action was not warranted or may submit such evidence in writing or both. If an appearance before the Committee is requested, the Loan Guaranty Officer will arrange for a mutually acceptable time and place. The proceedings of the Committee will be informal. Within 2 weeks from completion of the hearing and/or receipt of the written material, the Committee will make its determination as to whether the action should be sustained, modified or rescinded. Written notice of its determination will be given the individual promptly. Such notice must include a statement that if the individual still believes the action was not warranted, he/she may, within 30 days, submit a written request to the Station Director for review and reconsideration of the action.

c. Upon receipt by the Station Director of an appeal, all relevant material concerning the matter will be furnished to the Director by the Fee Roster Committee. The Director will review the entire matter and notify the individual and the Committee of his/her decision as to whether the decision of the Committee is sustained, modified or rescinded.

LOAN GUARANTY PROGRAM

ISSUE: Home loans for veterans in American Samoa

Lenders are not willing to make loans in Samoa for a number of reasons. First, there is no secondary market for these loans, which is an important consideration since lenders prefer to have the option of either selling a loan or retaining it in a portfolio. Also, there are low average income levels on the island, no credit bureaus, and it is difficult to obtain title insurance. The landholding system of the island is primarily communal in nature, and there is little experience in dealing with individual ownership of property as it is known in the United States. Also, servicing of loans would be difficult due to the great distances involved.

While the law permits leaseholds and foreclosures of mortgages on leaseholds in American Samoa, some uncertainty persists. One foreclosure case is apparently being defended on the grounds that foreclosure would be against the laws and customs of American Samoa. Section 3 of their Bill of Rights provides in part: "It shall be the policy of the Government of American Samoa to protect persons of Samoan ancestry against alienation of their lands and the destruction of the Samoan way of life and language."

We do not believe that direct loans for American Samoa would be advisable at this time. While direct loans are still authorized, they have not been funded in recent years except in connection with specially adapted housing grants to severely disabled veterans. To reinstitute direct loans for American Samoa could create pressure for reestablishing the direct loan program in all rural areas and elsewhere where mortgage credit is difficult to obtain. Direct loans in American Samoa would require servicing, field reviews and other activities requiring on-site visits. Additional personnel and funding may be required.

We believe that home loans for veterans in American Samoa might be best addressed at the local level. If the Samoan Development Bank or other agency of the Government of American Samoa could establish a revolving fund to make GI loans, VA would be able to guarantee those loans.

LOAN GUARANTY PROGRAM

Issue: Congressman Evans' recommendation to assist homeless veterans secure long-term shelter

With respect to Congressman Evans' recommendation that VA assist homeless veterans to secure long-term shelter through the use of VA-acquired properties, we support the concept of making certain VA-acquired properties available for use as shelters for homeless veterans. As provided for in S. 477, The Homeless Veterans Assistance Act, VA would be permitted to transfer to organizations working on behalf of homeless persons properties which may be used for sheltering homeless veterans. While the VA has not yet established detailed policies and procedures that would implement the provisions of the bill, we have formulated broad parameters. Once it has been determined which geographic areas have significant numbers of homeless veterans, our field stations would prepare special listings of properties in those areas which had been in inventory for 12 months or more. These listings would be distributed to qualifying organizations in the respective areas.

Our Philadelphia Regional Office staff has held preliminary discussions with representatives of the City of Philadelphia concerning the sale of VA-owned properties to the City to be used to shelter some of the City's homeless. We understand that these discussions have not yet progressed beyond the preliminary stage. There has been no indication of the number and/or location of properties to be purchased.

LOAN GUARANTY PROGRAM

Issue: URI's statement concerning rehabilitation of VA-acquired properties through the Jobs Training Act

With regard to URI's proposal to rehabilitate VA-acquired properties which would later be used to provide temporary shelter to homeless individuals, we support the concept of making certain VA-acquired properties available to entities which will use them to provide shelter for homeless veterans. The Homeless Veterans Assistance Act of 1987 (S. 477) contains provisions for sheltering homeless individuals. The bill would permit VA to transfer to organizations working on behalf of homeless persons properties which may be used for sheltering homeless veterans. We expect to make properties available at a "fair market price", but some properties with little or no net realizable net value could be conveyed to local entities for little or no consideration. Rehabilitation of these properties would be the responsibility of the entities to which the properties are transferred.

In order for the property rehabilitation to be accomplished by "homeless" individuals training pursuant to the provisions of the veterans' Job Training Act (VJTA), the rehabilitation would have to be part of an employer's program of job training meeting the requirements of section 6 of the VJTA and approved under section 7 of that Act. Among other approval criteria, the program would have to provide significant full-time training for employment which does not consist of seasonal, intermittent, or temporary jobs and, upon completion, would result in stable and permanent employment with the employer in the position for which the veteran trained. If the program of job training is approved and funding is available, the employer would be reimbursed at 50% of the starting wage rate for wages actually paid to the eligible veteran during the approved training period, not to exceed a total reimbursement on behalf of the veteran of $10,000.

With regard to Mr. Radtke's statement that it requires an average of six months to obtain loan approval for the purchase of VA acquired properties from our Detroit Regional Office, our reports indicate that loan approvals by that office averaged 29 days from receipt of the offers during calendar year 1986, and 27 days for the present calendar year (thorugh March 31). The length of time taken to approve an offer will generally depend on how quickly documents necessary to approve or disapprove the loan have been received from the broker who represents the prospective purchaser.

LOAN GUARANTY PROGRAM

Issue: Housing Opportunities' comments concerning counseling, servicing, forbearance and an assignment program for delinquent veteran homeowners.

Housing Opportunities states that VA offices and representatives are inconsistent in providing counseling and forbearance agreements, that VA has no program comparable to the FHA assignment program, and that veterans have limited access to private counseling services because VA does not fund such activities.

During the past year VA personnel have had the opportunity to review the basics of the HOPE program and to meet with Mr. Jim Butler, President of Housing Opportunities, Inc. (HOI), the organization which developed the program. We think the approach to counseling described for the HOPE program is excellent and, in fact, this is the approach preferred by VA in our supplemental servicing efforts. We appreciate this opportunity to explain what steps are taken by VA to resolve loan delinquencies, and to comment on Housing Opportunities' statements.

VA becomes personally involved with borrowers at an early stage of any delinquency and is often instrumental in assisting borrowers to avoid foreclosure and to retain ownership of their homes. This is different from the approach taken by the Department of Housing and Urban Development, since HUD does not ordinarily involve itself with a mortgagee's servicing of a particular account unless specifically requested to do so by the mortgagee, mortgagor or a counseling agency.

In a loan default case, the mortgage holder is responsible for contacting the borrower, determining the reason for the default, and making arrangements for repayment of the delinquency. If this cannot be accomplished by the time three installments are due and payable, the default must be reported to VA, together with the holder's explanation of the reason for the default and a summary of its servicing efforts. Upon receipt of such notice, VA takes an active role in working to protect the interests of the veteran borrower and the Government.

VA closely reviews the holder's servicing of the account and follows up by attempting to contact the borrower by letter, mailgram, telephone and/or personal visits to the property. Once contact has been established, based on the facts in the case, VA personnel may offer financial counseling and/or may intercede with the holder on behalf of the veteran in order to obtain forbearance or arrange a reasonable repayment schedule in appropriate cases. Also, VA is in contact with local agencies that provide assistance in finding jobs for borrowers, or aid with their daily subsistence needs or help in making direct mortgage payments. When appropriate, delinquent borrowers are referred to such agencies so that they may apply for benefits.

If no arrangements for reinstatement are made and if the holder files a Notice of Intention to Foreclose, VA requires that foreclosure procedures cannot be started for 30 days, during which period VA is afforded additional time to try to service the loan. Even after foreclosure has been initiated, supplemental servicing is continued in order to explore every possibility to assist the borrower.

VA does not have a formal assignment program with fixed application procedures. However, every case in which a holder has indicated it will not continue to extend forbearance is reviewed by our regional office personnel in order to consider refunding. In refunding cases, VA takes an assignment of the security instruments from the loan holder and the borrower is responsible for making payments to VA. The refunding review involves the evaluation of many factors, including the current reasonable value of the property, the amount of the indebtedness, whether or not the veteran occupies the property, and the ability of the veteran to care for and maintain the property. In evaluating the veteran's income, we require that he or she presently have the ability to maintain the mortgage obligation or have the potential to resume regular payments within a reasonable time, and to ultimately repay the loan.

Our personalized approach to supplemental servicing of delinquent borrowers results in varying degrees of assistance because the situation of each borrower is different. In addition, it is the loan holder which ultimately determines whether a repayment plan or continued forbearance is acceptable. We do not have the authority to require holders to grant forbearance.

VA policies and procedures are quite extensive in the assistance afforded veterans in retaining ownership of their homes during periods of financial difficulty. However, there certainly may be times when additional services such as those provided by the HOPE program could be beneficial to borrowers. In such cases our field offices may refer delinquent borrowers to those local agencies which provide the types of services that are most appropriate.

Over the years VA has worked closely with a number of counseling agencies to assist veteran borrowers to retain ownership of their homes. However, VA does not have funds designated for contribution to independent counseling agencies as does HUD. Further, we do not believe that it would be beneficial to enter into a contractual relationship with any individual housing counseling agency. Such an agreement could be construed as preferential treatment for a particular agency by appearing to designate it as an official representative of the VA.

In addition, the endorsement of any private housing counseling agency by the VA would be tantamount to VA approval of that agency's activities in the eyes of veteran borrowers. Approval of any private counseling facility would therefore require that VA have the capability of monitoring the actions of such agency. We do not have the personnel or the funds to arrange for such monitoring.

While VA cannot endorse or fund specific agencies, our regional offices have been working with various counseling organizations and providing them with the necessary information to adequately counsel delinquent borrowers when asked to do so on an individual basis at the borrower's request. We understand our Pittsburgh VA Regional Office has cooperated with HOI in the past and is willing to advise veterans to utilize the additional services provided by the HOPE program. We believe our VA Regional Office in Cleveland, Ohio will similarly cooperate with the Youngstown Urban League as it attempts to implement the HOPE program in the Youngstown area.

LOAN GUARANTY PROGRAM

Issue: Effect of below-market sales on surrounding neighborhood properties.

Our sales program involves the sale of Government assets. In the disposition of these assets, we recognize the need to establish initial list prices at levels that will result in the expeditious sale of properties and will, at the same time, allow for the maximum recapture of the money paid by the Government to acquire such properties after foreclosure. Similarly important is the need for timely reevaluation of listed prices when a property has not sold at a given list price within a reasonable period of time.

List prices for VA-acquired properties are generally established on the basis of (1) an opinion of market value furnished to VA by a qualified local fee appraiser, (2) an opinion of market value provided by a local fee basis management broker, and (3) VA's own staff estimate of value based on recent comparable property sales in the locality.

We recognize the impact that pricing reductions might have on property values in a particular neighborhood, particularly when there are substantial reductions without benefit of a series of graduated reductions to test the market at each successively reduced list price. Consequently we encourage our field stations to make every reasonable effort to establish prices that are consistent with the local market indicators and to avoid drastic price reductions in favor of graduated reductions, whenever possible.

For the properties sold by our Pittsburgh Regional Office during fiscal year 1986, the average loss per property was $13,871. Nationwide, the average loss per property sold during FY 1986 was $14,450.

Issue: The proposal by Housing Opportunities that VA review the average loss per foreclosure to determine if additional foreclosure prevention strategies should be developed.

VA's primary concern focuses on helping veterans avoid foreclosure. Losses to the Government in connection with foreclosures are important; however, they are not a determining factor in the development of measures to assist delinquent borrowers.

Our personal supplemental servicing efforts have already been described in response to other questions by Housing Opportunities. Despite all servicing efforts--whether by VA, the lender or private counseling agencies--there are situations in which the default is insoluble. When this occurs, VA makes additional efforts to avoid foreclosure. When the borrower has an indicated equity in the property, VA encourages a private sale. If the property is worth less than the amount owed on the loan, and the borrower finds a purchaser who is willing to buy the property for its fair market value, VA can cooperate by paying a compromise claim for the difference between the proceeds of sale and the loan indebtedness. This procedure applies both to cash sales and sales by assumption. In situations where neither reinstatement of the loan nor a private sale is feasible, and refunding is not appropriate, VA considers acceptance of a deed in lieu of foreclosure. If acceptance of a deed is legally feasible, and will be in both the borrower's and VA's best interests, then VA will approve it.

LOAN GUARANTY PROGRAM

ISSUE: The impact of VA loans on neighborhood racial and ethnic stability

VA collects racial and ethnic data on loans by county, but not by census tract, and we are unable to statistically correlate whether a concentration of VA mortgages in a particular neighborhood would have any effect upon neighborhood stability or cause resegregation.

A redesign of our loan reporting system would be required in order to collect racial and ethnic data by census tract. This would require a commitment of personnel and budgetary resources to capture and verify such information, and to provide an Impact Report.

VA believes a veteran has the right to purchase a home where he or she chooses, without regard to race, sex, religion or national origin. We do not believe VA should become involved in "steering" veterans to one neighborhood or another.

VA affirmatively implements the provisions of Title 8 of The Fair Housing Act. As part of the fair housing program, VA conducts a home counseling service in 23 cities, including Cleveland, to provide prospective home buying veterans advice and assistance in practical aspects of home buying and homeownership. In Fiscal Year 1986, 15,929 veterans were counseled, including 8,930 minority veterans. Since 1973, over 79,000 minority veterans and 141,000 veterans overall have been assisted by this home counseling service. VA's prepurchase counseling program is strictly voluntary. We do not believe a veteran's use of his or her loan guaranty benefit should be conditioned on attendance at counseling sessions.

LOAN GUARANTY PROGRAM

Issue: Including rehabilitation funds in VA guaranteed loans and assisting groups of veterans in building their own homes.

Under section 1810(b) of title 38, U.S. Code, the amount of a VA guaranteed loan may not exceed the reasonable value of the property or the cost of construction, repairs or alterations. This limitation on the loan amount protects the Government, as guarantor of the loan.

When a property is appraised "as is," the loan amount may not exceed the appraised value, although the veteran is free to pay more for the property if he or she chooses to do so. If the property is appraised "as repaired," the loan may be made for the reasonable value of the property after certain repairs are made. In these cases, however, since the appraisal is predicated on completion of the repairs, the loan will not be guaranteed until the repairs have been completed or funds have been escrowed to assure completion of the repairs.

While an "as repaired" appraisal approach will work for minor repairs, homes involving major rehabilitation work cannot be handled in this manner. When the repair or rehabilitation work is major, there is no assurance that the money spent will increase the ultimate value of the property on a dollar for dollar basis. For example, a $40,000 property with $10,000 worth of rehabilitation work added on may be worth only $45,000 rather than the $50,000 that may have been expected. Since 38 U.S. Code 1810(b) limits the loan amount to the reasonable value of the property, it would not be proper to provide major rehabilitation funds on VA guaranteed home loans.

The Neighborhood Reinvestment Corporation suggested that VA join in sponsorship of a project whereby a group of veterans would build their own homes under NHS supervision. While VA would be willing to join in discussions concerning the guarantee of a loan to a group of veterans, there could be difficulties. These could include finding a lender willing to make the loan to a group of veterans and devising measures to assure the protection of each veteran's equity in the event other veterans fail to discharge their obligations under the group agreement.

Issue: The proposal by the Neighborhood Reinvestment Corporation that VA participate in a delinquency counseling demonstration with National Housing Services (NHS) organizations.

With regard to the proposal that VA work with NHS in delinquency counseling, please note our discussion of counseling agencies in response to the recommendations of Housing Opportunities. In summary, we do not believe it would be appropriate for VA to endorse any particular counseling agency; however, our regional offices will work with local counseling agencies when appropriate and at the request of the veteran borrower. Normally, VA is not involved with homeowners in the 30-day delinquent category. The vast majority of such defaults are cured before it is necessary for lenders to report them to VA, and earlier reporting would overwhelm VA's ability to review cases and discern which would benefit from our personal supplemental servicing. We do, however, agree that assistance to delinquent borrowers can be most effective early in a default. Accordingly, our field stations will cooperate with NHS's in counseling any veteran who requests such assistance, whether or not the delinquency is serious enough to have been reported to VA.

Issue: NRC's recommendation to "turn VA owned properties into neighborhood assets"

With respect to NRC's proposal to "turn VA owned properties into neighborhood assets", the Department of Housing and Urban Development (HUD) administers the federal government's Urban Homesteading Program. The basic goal of urban homesteading has been the revitalization of declining neighborhoods by deeding vacant and abandoned properties to persons who are willing to repair them and live in them. Federally owned properties became available for urban homesteading in 1974 when HUD was authorized to transfer certain foreclosed properties in the HUD inventory to participating local governments. In the early years of the homesteading program, VA participation was effectively precluded, since the Secretary of HUD was not authorized to reimburse VA for acquired properties which VA might convey to local urban homesteading agencies. However, as a result of a 1979 amendment to Section 810 of the Housing and Community Development Act of 1974, the Secretary was authorized to reimburse VA for property which VA conveys to a unit of general local government, State, or agency for use in connection with an approved urban homesteading program. VA began participating in the program in September 1981 after execution of a Memorandum of Agreement with HUD.

Properties included in the program are primarily located in urban areas and have market values of $25,000 or less. Individuals who purchase such properties must acquire them from local urban homesteading agencies, rather than from VA. This procedure presents a favorable opportunity for VA to dispose of some of its harder-to-sell properties for current values, while contributing to the revitalization of designated urban neighborhoods blighted by numerous vacant and abandoned houses.

The VA has supported this program since becoming involved and we view it as an ideal mechanism for turning "VA owned properties into neighborhood assets".

LOAN GUARANTY PROGRAM

Issue: Recommendation by Jake Kamin, Chairman, American Mortgage Company, that VA or GNMA issue a commitment to purchase property acquired by lenders as a result of a "no-bid" if the lenders are unable to dispose of the property within two years.

We cannot state GNMA's position with respect to this recommendation; however, VA would not be able to adopt it. Public Law 98-369 amended 38 USC 1816 to specifically preclude VA from acquiring property in situations where the difference between the loan indebtedness and the net value of the property exceeds our guaranty. These are commonly called "no bid" cases, and in such cases, VA's liability is limited to payment of a maximum claim under our guaranty. Any agreement to extend our liability by offering to purchase property in such cases, even after the passage of two years, would not be allowable under the law.

Issue: Recommendation of Mr. Jake Kamin, Chairman, American Mortgage Company, that VA work with GNMA to finance a program which would permit pooling of restructured loans.

Modification or restructuring of delinquent loans may be a useful tool for preventing foreclosures. VA recognizes this and provides loan holders with considerable flexibility (38 CFR 36.4314) when a change in loan terms will assist a veteran borrower. While we encourage holders to provide such assistance, we understand secondary market requirements may restrict their ability to dispose of restructured loans. VA is not, however, involved in the establishment of secondary market requirements. Accordingly, this recommendation should be considered directly by GNMA. VA would be pleased to furnish GNMA with any available information which might be of use in its evaluation; however, we are not authorized to provide financing for secondary market activities.

Issue: Recommendation by the Mortgage Bankers Association that VA delegate foreclosure authority to lenders, endorsed by American Mortgage Company.

MBA advocates the delegation of the authority for VA foreclosures to the lenders. Specifically, MBA proposes that lenders be authorized to order the pre-foreclosure appraisal, determine whether the VA should acquire the property or pay the guaranty (in accordance with the statutory formula), and determine the appropriate bidding instructions for the VA at the foreclosure sale.

Delegation of VA's authority during the foreclosure process could pose serious problems for the government which center around the appraisals made at the time of foreclosure. The following factors should be considered:

(1) At present, VA does not make its decision to refund a loan until an appraisal is received. It would be difficult for VA to determine whether refunding would be in the best interest of the Government and foreclosure stopped, unless the appraisal and other information are received by VA well before the scheduled sale date.

(2) If the lender received the appraisal directly from the appraiser and was not satisfied with the value, the lender could order another appraisal and VA would be unaware that there was more than one pre-foreclosure appraisal performed. VA would also lose its ability to monitor the earnings of appraisers since the VA would only have knowledge of paying a fee to one appraiser.

(3) If lenders received appraisals directly, they would have the opportunity to assure that the values resulted in amounts being specified so that VA would acquire the security. This could cause significant resale losses to VA.

(4) It would be more difficult for VA to maintain quality control over fee appraisers. Timeliness standards on assignments could not be checked, nor would VA have an opportunity to review appraisals for accuracy before foreclosures are completed.

(5) Since the net value determination affects the amount of any claim payable by VA and the resultant debt established against the veteran borrower, it may not be prudent to permit the holder to make this determination. Some courts have placed great importance on the involvement of VA in the liquidation appraisal process, especially as to when deficiencies are established against the veteran borrowers.

(6) Lenders often do not have the Loan Guaranty Certificate on hand to alert them on cases with less than full guaranty. This could result in their miscalculation of the unguaranteed portion of the loan, and an amount will be specified when the case should have been a "no-bid."

(7) In joint loan cases involving a veteran and a non-veteran, the holder may fail to properly limit VA's liability only to the veteran's portion of the loan.

(8) In fire loss cases, holders may not take into consideration loss proceeds in determining the balance of the loan indebtedness, and this would affect whether or not an amount should be specified.

(9) Where there is an indicated equity in the property, VA often requests postponement of the foreclosure sale to protect the veteran. Whether or not there is an equity is unknown until the appraisal is received.

(10) Lenders may not be in a position to perform a comprehensive review of the appraisal, either because they don't have adequate appraisal staff or they don't have sufficient comparable sales data available, i.e., similar to data that is available to VA. This could result in an unreliable estimate of fair market value upon which the net value would be based. Under existing procedures, lenders order the pre-foreclosure appraisal which is subsequently forwarded to VA for review. MBA's proposal would obviate these procedures.

Issue: Recommendation by the Mortgage Bankers Association that costs of avoidable delays in foreclosing loans should be borne by VA in cases where VA is responsible for the delay, endorsed by American Mortgage Company.

MBA proposes that the accrual of interest for purposes of the no-bid calculation should cease when the lender has decided and is prepared to foreclose, although such interest should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

Although there may be merit in this proposal, we are not certain if it is legal to do this under existing law. Further, we are studying what impact this would have on our program.

Issue: Recommendation by the Mortgage Bankers Association that delays in foreclosure caused by circumstances beyond the control of VA or the lender should be considered in determining whether VA will acquire a property, endorsed by American Mortgage Company.

MBA proposes that if a foreclosure is delayed due to circumstances beyond the control of the lender or the VA, such as bankruptcy, the lender should have the option to stop the accrual of interest for purposes of the no-bid calculation in return for forfeiting the right to be reimbursed for such interest if the VA acquires the property.

The proposal raises questions of how to define circumstances beyond the control of the lender or the VA; e.g., would this include legal requirements which delay foreclosure in various states, or would it include the entire duration of a bankruptcy or only delays which occur after a court fails to grant a request for relief from the automatic stay? Consideration of the procedural problems involved in this proposal indicates it would not seem practicable.

Issue: Recommendation by the Mortgage Bankers Association that the cost of delays in foreclosure due to a period of forbearance should not be considered in determining whether VA will acquire a property, endorsed by American Mortgage Company.

MBA proposes that interest that accrues during a period of forbearance by a lender should not be taken into account in the no-bid calculation, but should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property. We understand that, according to MBA testimony to the Senate Veterans Affairs Committee on February 19, 1987, this proposal is intended to apply only to forbearance requested by VA.

This proposal has some merit but it is not clear whether it can be implemented under the existing law. Also, we are studying what impact this would have on our program.

Issue: Recommendation by the Mortgage Bankers Association that greater use be made of the deed-in-lieu of foreclosure procedure, endorsed by American Mortgage Company.

MBA states that VA rarely approves deeds-in-lieu of foreclosure, and proposes that greater use be made of this means of terminating delinquent loans.

It has been a longstanding VA policy to encourage lenders to pursue a deed-in-lieu of foreclosure when there is no reasonable alternative to termination of a GI loan provided that it is legally feasible and in the best interest of the Government to do so. Acceptance of a voluntary conveyance will normally be in VA's best interest when there is a considerable savings in liquidation expense, time in obtaining possession, or avoidance of a redemption period as compared to the probability of collecting a debt from the obligors if the loan were terminated by foreclosure. A voluntary conveyance may offer additional savings in that interest accrual and necessary advances which would increase the account indebtedness may be substantially reduced.

A voluntary conveyance will normally not be acceptable if the veteran appears to have the ability to reimburse the Government for the amount of any claim payment which VA will be required to make to the loan holder since such action would eliminate the veteran's responsibility for the debt. This would be inconsistent with the provisions of 38 USC 1816(a) and would make the GI loan benefit, in effect, an outright grant.

Issue: Adequate staffing for the Loan Guaranty Program

Although the home loan program has been experiencing heavier workloads due to lower interest rates, we have been able to effectively manage the program without any significant increase in employment. We have accomplished this through the use of overtime and contract funds, increased computer modernization of work processes, and emphasis on automatic loan processing. We believe we can continue to provide timely and quality service to veteran homebuyers with the resources available to us.

Issue: Requiring lenders with automatic authority to originate all VA loans on the automatic basis

We do not agree with American Mortgage Company's recommendation that automatic lenders be required to originate all VA loans on the automatic basis. Lenders correctly view automatic processing authority as a privilege, not a right, and tend to carefully scrutinize any VA loan which they make on the automatic basis. Veterans whose credit or income is somewhat marginal but still adequate to support the loan could be denied a VA guaranteed loan if the lender's only choices were to either process the loan on the automatic basis or reject the loan. Since a VA guaranteed loan is a benefit to the veteran, we believe that the veteran should have recourse to the VA as the final authority on whether he or she is qualified for the loan.

LOAN GUARANTY PROGRAM

Issue: Listings of foreclosed properties in Toledo, Ohio and Chicago, Illinois

The attached listings show properties which are currently available for sale in Toledo, Ohio and Chicago, Illinois, along with the dates on which the regional offices accepted custody of these properties. Although VA will generally accept custody of a property within 15 days after the foreclosure sale is held, the property is not immediately available for sale by VA since we must obtain title to the property before it can be sold. During calendar year 1986, VA was able to obtain title to acquired properties in approximately 3.7 months in Illinois, but, there is a six month statutory redemption period after foreclosure during which the former owner has full use of and rights to the property and during which VA is not permitted to sell the property. In the State of Ohio, it required an average of 3 months to obtain title to VA-acquired properties during calendar year 1986.

The goal of VA's property management and sales activities is to sell acquired properties at the best available prices and terms and as early as possible. The methods currently being used to dispose of the properties in Toledo and Chicago are essentially the same as those used by our other regional offices. Specifically, disposition of all inventory properties will continue to be based on timely pricing revisions, increased public awareness of our program through increased advertising, and more effective cooperation with real estate professional groups in local areas. In addition, we will be using public real estate auctions as a supplemental sales technique, where appropriate, to dispose of those properties which have been in inventory for the longest periods. Finally, the agency's inventory reduction goals have been included in the performance standards of our regional office directors.

Properties Listed for Sale in Chicago as of March 30, 1987

Property Address	Election to Convey (GI)	*Vendee Loans
6210-4 S. Jeffery Blvd.	9/23/86	
6412 S Honore	11/19/85	
8004 S. Muskeeon	8/12/85	
329 111th St		Vendee
322 E 119th St	10/13/82	
5450 W Lord St	12/6/85	
12901 S Sangamon	8/11/86	
5343 S Winchester	7/17/86	
10155 S Perry	5/27/86	
10414 S Union	6/20/84	
6625 S Seeley	1/28/87	
10232 S Wentworth		Vendee
6753 Bishop	10/30/85	
8532 S Carpenter		Vendee
11557 S Sangamon	5/15/86	
6412 S Fairfield Av	7/14/86	
5008 S May	8/11/86	
8118 S Campbell		Vendee
11664 S Vincennes	12/19/84	
13107 S Rhodes	12/17/86	
10630 S Langley	7/29/86	
326 W 111th St	5/27/86	
10240 S Yale	5/27/86	
9229 S Saginaw	12/24/85	
12253 S Parnell	5/1/86	
10707 S Albany	12/3/86	
9025 S University	4/4/85	
3065 E Cheltenham Pl	8/15/86	
9150 S Blackstone		Vendee
302 W 110th St	7/17/86	
6035 LaSalle		Vendee
9036 S Greenwood	9/24/84	
12825 S Escanaba	9/2/86	
8360 S Anthony	9/9/86	
11229 Avenle H	10/30/85	
9152 S Avolon	8/25/86	
122 E 110th St		Vendee
3626 W 80th St	12/24/86	

9737 S Escanaba	4/10/86	
9116 S Dauphin	5/4/83	
1818 W. 69th St	5/14/86	
2140 E. 97th St		Vendee
6715 S Claremont		Vendee
5714 S Hoyne	5/7/86	
7851 S South Shore	8/22/86	
7430 S Phillips		Vendee
5450 W. Cortez	2/25/85	
6777 S Claremont	6/27/86	
926 W 34th PL		Vendee
11502 S May	6/9/86	
10757 S Champlain	3/20/86	
118 W. 91st PL		Vendee
6615 S Claremont	4/8/86	
6226 S Seeley	2/11/85	
12038 S Michigan	5/4/85	
13146 S Eberhart	4/13/84	
5312 S Bishop	1/14/85	
1915 W 59th St	2/22/85	
11814 S Lafayette	3/11/85	
6741 S Hermitage	6/3/85	
12047 S Wallace	10/9/85	
6909 S Indiana	9/20/84	
1407 W. 109th PL	12/31/85	
6415 S Talman	11/12/85	
10542 S Edbrooke	6/5/84	
6419 S Damen	8/13/86	
232 W 104th PL	4/26/84	
7224 S Union		Vendee
12048 S. Eggleston	5/24/85	
44 W 113th		Vendee
19 W 113th St.	6/11/86	
2135 E 98th St	4/18/86	
10229 S Beverly	8/20/85	
10442 S Eggleston	4/18/85	
5746 S Wolcott		Vendee
1909 W Marquette	4/17/85	
10646 S Langley	11/19/85	
460 W 126th PL		Vendee
12231 S Throop	4/30/86	
12200 S Ada	2/3/86	
100 W 118th	5/2/84	
21 W. 111th PL	11/19/85	

* These properties were sold by VA using seller financing (vendee loans) and were re-acquired by VA when the purchaser did not make the required monthly payments.

Properties Listed for Sale in Toledo
as of March 30, 1987

Property Address	Election to Convey (GI)	Title *(Vendee)
431 Langdon, Toledo		10/15/86
2435 Lawrence, Toledo	12/17/85	
2248 Auburn, Toledo	10/15/86	
1555 Jermain, Toledo	10/21/86	
523 Walbridge, Toledo	5/16/86	
723 Segur, Toledo	6/20/86	
722 Moran, Toledo		9/13/85
1321 Shenandoah, Toledo		11/25/86
1160 Tecumseh, Toledo	7/25/86	
1274 Vance, Toledo	10/18/85	
3844 House of Stuart, Toledo	6/18/85	
1108 Coventry, Toledo	6/6/86	
1405 Lawnview, Toledo	5/23/86	
1136 Joel, Toledo		10/15/86
925 Wall, Toledo		11/7/86
125 Islington, Toledo		2/19/87
352 Richardson, Toledo		1/27/87
308 West Park, Toledo		12/24/86
2542 Collingwood, Toledo		12/17/86
1512 Mott St, Toledo		12/17/86
1537-39 Carlyle, Toledo	9/3/86	
1114 Ontario, Toledo	4/29/86	

*These properties were sold by VA using seller financing (vendee loans) and were re-acquired by VA when the purchaser did not make the required monthly payments.

EXHIBIT I

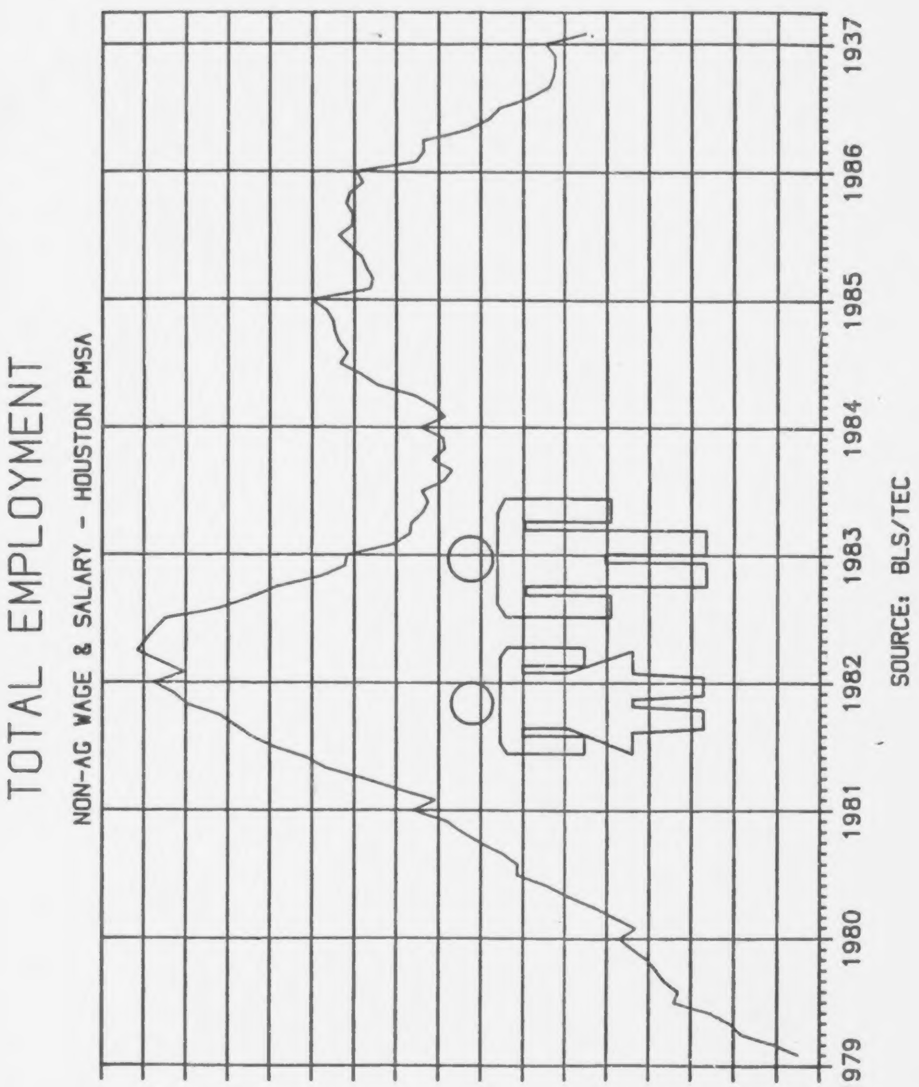
TOTAL EMPLOYMENT
NON-AG WAGE & SALARY - HOUSTON PMSA
EMPLOYMENT - (MILLIONS)
1.6
1.58
1.56
1.54
1.52
1.5
1.48
1.46
1.44
1.42
1.4
1.38
1.36
1.34
1.32
1.3
1.28
1.26
1979
1980
1981
1982
1983
1984
1985
1986
1937
SOURCE: BLS/TEC

EXHIBIT II

Regional Office

2515 Murworth Drive
Houston TX 77054

Veterans
Administration

March 17, 1986

TO: All Fee Appraisers

In Reply Refer To: 362/26

SUBJ: Current Real Estate Market Conditions - Houston Regional Office

1. This VA Office currently owns over 5,000 residential properties throughout the South Texas Region. The greatest number is concentrated in the metropolitan areas of Houston, San Antonio, and the Valley. VA acquisitions by loan foreclosures are now exceeding our sales efforts by almost double. In other words, we are only able to sell half as many houses as we acquire. This economic condition has never before occurred on this massive scale in our regional area.

2. It is noteworthy that the regional economic conditions are causing this office's overall Property Management sales efforts to recover only 85 percent of its list prices. All list prices are firmly based upon the most current appraisal information available (YOUR LIQUIDATION APPRAISAL REPORT). This leads VA to conclude that our appraisal estimates ARE NOT fully considering all available sales data nor the extremely large number of properties that are currently listed on the market but remain unsold due to the oversupply of housing. In the Greater Houston area alone, more than 150,000 houses are currently listed for sale by owners, builders, and brokers through MLS, Bank REO's, FHA and VA. Some have been listed for as long as two years.

3. You should consider that a majority of the South Texas market is severely depressed and/or suffering from adverse economic conditions. Based upon the current sales experience in our own property sales program, VA is not now able to sell its homes for the appraisal value you estimated for the VA in the liquidation appraisal report. VA is cognizant of these conditions and considers date of sale adjustments ranging from MINUS 5% to MINUS 20% to be fully supportable when you are unable to verify sales data that have occurred within six months of the subject's date of appraisal.

4. These market conditions and appropriate adjustments made to comparable sales data must be considered by all VA fee and staff appraisers when completing VA appraisal reports for

   a. Loan liquidation purposes,
   b. Loan origination (proposed and existing construction), and
   c. Refinancing purposes.

5. All VA fee personnel are reminded that their appraisal report is for the benefit of the VA not the veteran, seller, builder, lender, or real estate agent. We do not expect the appraiser to HIT SALE PRICE when the sales and list prices of the comparable properties tell us the values have declined or are declining.

F. M. McREAKEN
Loan Guaranty Officer

DIST: I, J

"America is #1—Thanks to our Veterans"

EXHIBIT III

NEWSPAPER ARTICLE

Post photo by Mary Urech Roberts

Marcy Goldring of Larry Latham Auctioneers takes bids during the VA housing auction at the Westin Galleria Saturday.

Credit cards used in some cases

Buyers net VA auction bargains

By CARL HOOPER
Post Real Estate Writer

Some houses were purchased cheaply enough to be charged on credit cards Saturday when the Veterans Administration launched a Houston housing auction billed as the biggest such sale ever held in the United States.

VA officials estimated 125 houses and condominium units in Houston and vicinity sold for $2.6 million on the first day of the two-day auction that ends today at the Westin Galleria Hotel, 5060 W. Alabama.

High bids on the properties averaged just over $21,000 and ranged from $3,300 to $87,000.

Bob Burns, a valve salesman who bought a three-bedroom house for $4,000, planned to charge the purchase on two Visa cards.

"There's no need to get a loan on the property," said Burns, who sells valves and fittings for the oil and research industries and lives at 5219D Sandydale.

Burns conceded that a lot of work is needed for his newly acquired property at 1521 Margaret.

"I plan to fix it up for use as a rent house," he said. "It'll be my second rental property. About $300 a month should be a reasonable rent when all the work is completed."

VA officials scheduled the latest and largest in a series of local housing auctions to help sell off repossessed residential and investment properties involved in a record run of foreclosures blamed on falling energy prices and other economic problems that have plagued Houston since the early 1980s.

Larry Latham Auctioneers Inc., a national firm with offices in Houston and headquarters in Moulton, Ala., conducted the public auction and said 125 additional properties will be sold to the highest bidders at the same location at 1 p.m. today.

BURNS:
Charge it

Larry W. Latham, company president and head auctioneer, and Sally LePla, marketing director for the firm, said the properties are on the block because of foreclosures on home loans guaranteed by the VA.

"The VA guarantees 60 percent of the loan or $27,500, whichever is less," LePla explained. "The lenders usually fund four times the amount of the guarantee. And the property is auctioned to help the government recoup the amount of insurance collected by the lending agency."

The auctioneers and government officials stressed that the properties are free from any tax liens and may be purchased by either veterans or non-veterans.

The bidders were cautioned that each purchase must be accompanied by an earnest money check for $2,000.

"The balance due on the down payment or the full amount in cash must then be paid by Tuesday," said an auction company spokesman. "And 45 days will be allowed to arrange a mortgage loan for those buying property on credit."

VA Loan Officer Mike McReekes announced before the bidding that five condominium units would be auctioned even though the developer is being sued by a home owner association about alleged defects in construction.

John Vogel, a VA official from Washington, D.C., and Ted Myatt, VA regional director, said all the residential and investment property going on the block would be subject to an absolute auction. "That means the high bid will be accepted regardless of the amount," Myatt explained.

Loc Khor Nguyen, a building contractor, and his sister, Mykha Nguyen, both emigrants from Vietnam, said they will pay $2,000 down on a three-bedroom house auctioned for $6,000 and will repair the property before moving to it from their Houston apartment.

Lee Hohn, a printer, and his wife Barbara, an ambulance dispatcher, said they are buying a three-bedroom house for [illegible] and will move there from a nearby apartment in Webster.

Roy Segars, a retired teacher and football coach, and his wife Vivian, an active teacher in special education, both of La Marque, offered high bids of $26,000 and $15,000 for two houses in Hitchcock.

L.A. Bender, a patrol officer with the Houston Police Department, who lives in Missouri City, said she and her mother are now living together and will move into a three-bedroom house purchased from the VA for $12,000.

A deserted and vandalized house at Highlands near Baytown was purchased for about $3,300 by Mike and Cheryl Higgins.

"It's not in very good shape," he said. "But we'll fix it up. And we'll add it to our collection of seven rental properties in Highlands."

EXHIBIT IV

ADDITIONAL TECHNICAL INFORMATION

Top 10 States by Number of No-Bids

	FY 1985			FY 1986		
State	No. of Foreclosures	No. of No-Bids	Pct.	No. of Foreclosures	No. of No-Bids	Pct.
1. Texas	4,136	258	6	7,338	1,206	16
2. California	2,775	490	18	2,617	563	22
3. Ohio	2,156	366	17	1,977	378	19
4. Colorado	1,459	146	10	1,932	363	19
5. Illinois	1,685	236	14	2,090	339	16
6. Oklahoma	734	95	13	1,426	308	22
7. Indiana	854	128	15	881	182	21
8. Pennsylvania	876	184	21	825	176	21
9. Iowa	415	91	22	417	168	40
10. Washington	1,182	130	11	1,283	165	13

Source: Veterans Administration
Prepared by Mortgage Bankers Association of America, February 1987.

VA NO-BIDS AND FORECLOSED LOANS

Fiscal Year Ending	Loans Foreclosed	Number of No-Bids	Number of No-Bids As Percentage of Total Foreclosed
1981	12,490	358	2.87
1982	15,427	238	1.54
1983	21,176	689	3.25
1984	23,377	1,496	6.40
1985	27,276	3,055	11.20
1986	34,642	5,236	15.00

Source: Veterans Administration
Prepared by the Mortgage Bankers Association of America, February 1987

HOUSTON Update
Number 2
October 1986

Reporting the latest research
findings on Houston's economy

Center for Public Policy
University of Houston

The Houston housing market continues on the road to recovery begun last fall. One of its major obstacles, however, is the enormous foreclosure problem, which may leave some neighborhoods permanently scarred. If this problem is solved, will Houstonians see their home equities rise before the end of the decade? What changes will the future bring to vacancy rates, and to the different market segments? This issue of *Houston Update* explores these and other questions, and monitors recent developments in the area's economic environment.

Housing Market Update

The year 1985 marked a major turning point for the Houston housing market. During the last half of that year, the growth in new households exceeded the growth in housing stock for the first time since 1981, despite a renewed increase in net outmigration. Thus, the number of aggregate vacancies finally stopped rising, peaking at over 210,000 units.

This turn in the market did not stem, as in years past, from new economic growth. Rather, the decline in the aggregate vacancy rate came in response to a sharp drop in new construction, which is now substantially below the area's normal retirement rate. That is, the current rate of building is insufficient to replace those housing units retired from the stock by fire, abandonment, or demolition. This will result in a decreased housing stock.

It is encouraging that this trend is continuing through 1986 in spite of modest increases in single-family home starts and outmigration. By extrapolating current trends through the end of the year, it now appears that in 1986 household population will fall by 3,000 and housing stock will fall by 7,000, decreasing by about 4,000 the number of total housing vacancies on the market at the end of 1985.

As the basic problem of an unbalanced market begins to correct itself, prices are starting to stabilize. Since early 1985, home prices have remained essentially flat, rising modestly during the second and third quarters of the last two years and slumping somewhat during the "off-season." Although fourth-quarter performance will be an important test of market strength, home prices so far this year have shown a remarkable resiliency despite bad economic news.

The exception to this relatively bright report is the continuing collapse of prices in neighborhoods where foreclosure rates are particularly high. Whereas home prices in Harris County as a whole are not statistically different today from their fourth-quarter 1985 levels, prices in neighborhoods hit hard by foreclosure are falling at between 3 to 5 percent per quarter, leaving these areas more than 40 percent off their 1983 peak.

In this market, current conditions are most favorable for owner-occupied housing. Falling prices coupled with declining interest rates have lowered the cost of home ownership by about 54 percent. As a result, nearly 41,000 renters who could not qualify for home ownership 12 months ago now do qualify. This phenomenon, which is occurring nationwide, is especially noteworthy in Houston, where a very large number of households had been kept out of the owner-occupied market between 1979 and 1983.

Energy Industry Woes and Economic Contraction

During the last three months the Houston economy has experienced the full impact of falling oil prices, plummeting rig counts, and last spring's weekly energy layoffs. Since the beginning of the year, employment in the area's economic base has fallen by 26,000 jobs and total employment is down by more than 23,000. As energy sector layoffs peaked this summer, the economy lost 5,000 jobs per month. This pace of employment contraction is about twice that predicted by last quarter's *Index of Leading Indicators*, due probably to this summer's concentration of energy sector layoffs. Since the third quarter *Index* fell only modestly, suggesting job losses of about 3,000 per month, we believe that during the next three months the rate of employment loss should moderate.

While the loss of 5,000 jobs per month is painful to an economy still reeling from the effects of an earlier recession, the current contraction in employment is less severe than in 1982–83, when Houston lost more than 10,000 jobs per month.In addition, most employment losses at that time were "blue collar" jobs in manufacturing, as the production of oil field equipment slowed. In 1986, however, much of the job loss is occurring in the region's mining sector, particularly among "white collar" professionals involved in the city's exploration industry.

Because this segment of the labor force has stronger ties to the city and the energy economy, a significantly lower percentage has left the area, resulting in a less dramatic population change and higher unemployment rates than in 1983 (see *Houston Update*, June 1986). Despite a drop this spring in the U.S. rig count of about 65 percent, manufacturing losses have been relatively light, primarily because the production of exploration equipment had previously been halted.

We see another important change in Houston's economic picture among the secondary sectors of the economy: they finally have begun to slow down. Last fall, 15,000 secondary sector jobs were being created each year; today that growth has shrunk to an annual rate of less than 5,000. Among the secondary sectors, retail trade employment has shown the most substantial reversal.

Housing Update

As a result, home sales in the Houston area have risen dramatically. High rates of out- and in-migration, due to consolidation and restructuring in the energy sector, reinforce the effect of lower costs. With employees being recalled to Houston as well as being laid off, the city has seen a high turnover of residential real estate. However, this boost to the local real estate market should fade by next year. Whether home demand due to low costs continues to bolster the market will depend to a large extent on continuing low interest rates.

The relative strength of the owner-occupied market today comes, of course, at the expense of the multifamily rental market, as households shift from renting to owning. Thus, as total and single-family vacancy rates fall, multifamily vacancy rates are beginning to rise. This trend will continue as long as the area's population declines and home ownership costs remain low. As vacancy rates increase, rental rates are likely to continue their slide through 1987, reinforced by the competitive pricing of newly purchased multifamily units with substantially lower capital bases.

Despite short-term difficulties, however, multifamily residential real estate is headed for better times. New construction, for all practical purposes, has stopped, which will leave the 1986 stock of multifamily housing 4,500 units below 1985 levels. This trend is expected to continue for at least the next three years. Therefore, even with stiff competition from the single-family housing market, multifamily housing vacancy rates should begin to fall sometime next year.

The most immediate threat to the city's housing market is the very large inventory of foreclosed properties in the hands of the mortgage lending industry. Since January 1985, approximately 30,000 home mortgages have been foreclosed, and most of this inventory has not yet been resold. At a time when the rate of new foreclosures outpaces the ability of lending institutions to sell foreclosed property, the probability of mass "giveaways" increases each month. In spite of the improved environment for single-family housing, this market does not have the capability to absorb another 20,000 to 25,000 homes on top of the already large supply of resale and new homes.

If a sudden disposition of REOs (real estate owned, or foreclosed properties) were to occur, home prices probably would fall sharply. This decline, however, would be only temporary, and prices should quickly recover to 1986 levels after the selling spree is over. In the long run, the transfer of REOs to owners and investors who are willing to accept the risks of the current market will help to complete the stabilization process. Hopefully, such a transfer will be orderly and will not significantly disrupt the improving market environment.

Today's Dual Housing Market

A selective analysis of individual neighborhoods shows a remarkable degree of strength in the housing market today. In at least two-thirds of Harris County, home prices have been stable since the first of the year, and in some neighborhoods prices have rebounded by as much as 4 percent. However, the remaining third of the county remains under tremendous pressure from both the direct and indirect impact of high foreclosure rates. **Prices in some subdivisions are as low as 54 percent of their 1983 levels, compared to a 76 percent county average. Housing in foreclosure-affected areas now sells for about $26 per square foot, as opposed to a county average of just under $41 per square foot.**

The contrast between areas affected and unaffected by foreclosure is even more startling when one focuses on particular locales. The prices of comparable homes situated within blocks of each other vary by as much as 20 percent. New housing today is going for the largest premium since University of Houston began monitoring home prices in 1970—as high as 20 percent in some areas. Homes in master-planned subdivisions are selling for $10 per square foot more than similar housing in small subdivisions. Areas in which either the builder or developer is still active are producing resale prices 15 to 20 percent greater than subdivisions where the builder or developer has left, and 30 to 35 percent greater than subdivisions where care of the basic infrastructure and common property has been neglected.

Why do buyers today pay higher prices for new housing in a Copperfield or First Colony development, when nearby they can acquire practically equivalent housing at as little as 75 percent of the cost? The answer seems to lie in the security home buyers are seeking from the ravages of high foreclosure rates. In order to protect themselves from the risk of living in a suburban slum, home buyers are willing to pay a large premium for the security that a quality builder/developer can provide. As a result, builders and developers have a strong pecuniary incentive to maintain the physical and financial integrity of a neighborhood. In a subdivision with an active builder/developer, common property is usually well kept and landscaped, community facilities are maintained and periodically upgraded, neighborhood security is assured, and civic organizations are promoted and sometimes subsidized.

These features stand out in a metropolitan area where literally hundreds of subdivisions, most of which are no more than 5 years old, are struggling to avoid the problems associated with high foreclosure rates. In these areas, vacancies are high, owner occupancy has fallen sharply, neighborhood organizations are ineffective or nonexistent, and the once attractive amenities of a promising subdivision—new homes and attractive landscaping—are lost to overgrown lawns and warning signs on garage doors.

At the Center for Public Policy's September conference, "Neighborhoods at Risk," the problems facing subdivisions affected by foreclosure were described in detail. In addition, a host of potential solutions to these problems was discussed. Participants noted that, because of premature neighborhood decline, more than $1.25 billion in property values has unnecessarily been lost. Two keys to undoing some of this damage include the lending institutions' orderly disposition of REOs to owners willing and able to hold on to and maintain these units, and the strengthening of neighborhood civic and homeowner organizations that protect community assets, such as deed restrictions, common property, and community facilities. Hopefully, the program initiated in September will soon generate positive results.

MYTHS ABOUT THE HOUSTON ECONOMY

Myth #2:

Today's Housing Crisis Is Due to the Collapse in Oil Prices

Ask any Houstonian, "What has caused the local housing crisis," and the response will almost always be phrased in terms of falling oil prices and the energy industry's woes. Ask housing industry leaders, and chances are you'll get the same answer. The coincidence of falling oil prices, slumping rig counts, and soaring foreclosure rates creates a seemingly obvious causal link. Surprisingly, however, the recent collapse in the international oil market and the subsequent unemployment it has generated locally have little to do with the depreciation of area home values and the dramatic rise in foreclosures.

Today's problems had their origin in 1983, not in the spring of 1986, and have more to do with excess building than an economic reversal. Between 1982 and 1984, the number of total residential vacancies rose by more than 100,000 units, 73,000 of which occurred in 1983 alone. During that time, area builders constructed more than 150,000 housing units, resulting in a net increase in the housing stock of approximately 110,000 units. From 1982 to 1984, the city's population did rise. But even if Houston's growth had kept pace with the average rate of the booming 1970s, no more than half of that increased housing supply could have been absorbed. During the disastrous year of 1983, of the 73,000 unit increase in vacancies, only 11,000 were due to a shrinking population. The remaining 62,000 empty units were the result of overzealous building by an industry too slow to acknowledge the changes in Houston's economy.

In this light, it is not surprising that most of the declines in home prices took place in 1983 and 1984, and that most of the foreclosed housing was purchased between 1981 and 1984. Because of dramatically falling home prices, approximately 65,000 homes stood at risk of foreclosure in early 1985. These units, in which the owner's equity is negative, cannot be sold or refinanced without a major additional commitment of "fresh" money. So far, lending institutions have foreclosed on nearly 30,000 of these devalued properties.

Fortunately, despite all of the bad news about the housing market and the economy, the overall pool of homes at risk has not significantly increased this year, since home prices in much of the metropolitan area have stabilized. Nonetheless, as many as 35,000 homes are still in danger of foreclosure unless some means can be devised to give owners hope of stabilizing values and tolerable monthly payments.

An understanding of the essential cause of the housing crisis—oversupply—makes it easier to see the bright side of today's Houston housing market. New supply has greatly dwindled, falling significantly short of the overall retirement level. As a result, housing stock is expected to fall by 7,000 units this year, and is likely to continue to decline during the next several years. Consequently, even if the area economy were to remain stagnant for the coming five years, overall residential vacancy rates would continue to drop. If the economy were to pick up just enough steam to cut the current level of net outmigration in half, the Houston housing market would be back on its feet by the early 1990s.

Economic Contraction

After gaining 4,000 jobs in 1985, retail is now losing about 4,000 per year. These declines are consistent with earlier analyses that indicated an overhang of 100,000 expendable jobs in secondary sectors.

Employment in the economic base should begin to stabilize during the fourth quarter of this year. The secondary sectors, however, are not expected to lead overall economic growth as they did in 1984 and 1985. Even after the energy industry layoffs are complete, we expect the overall economy to remain very sluggish throughout the next 12 months.

Coming up in *Houston Update*

The January issue will focus on the latest developments in the secondary sector of the Houston economy. The March issue will review the major events of 1986 and examine the prospects for 1987.

Dr. Barton Smith, *Director*
Susan Hill, *Director of Operations*
Al Ballinger, *Economics Data Manager*

The university is in compliance with Title IX

Center for Public Policy

The Center for Public Policy has tentatively scheduled the following programs for 1986. For more information, or if you would like to have your name placed on the center's program mailing list, please call 713/749-7141.

January (date to be announced)	"Problems and Progress under H.B. 72: Education Reform in Texas," a conference for public school administrators, school board members, teachers, government and business leaders, and concerned citizens
March (date to be announced)	"The Houston Economy One Year Later," a luncheon symposium featuring Dr. Barton Smith, who will review economic activities since March 1986
April 10	"Beyond Welfare: Alternative Approaches to the Problem of Poverty in America," a conference focusing on public and private sector programs to alleviate and prevent poverty

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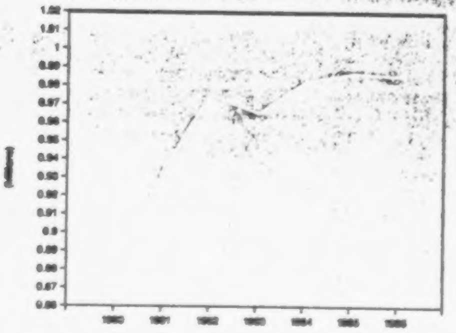

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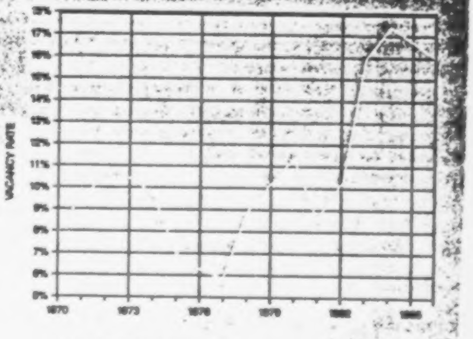

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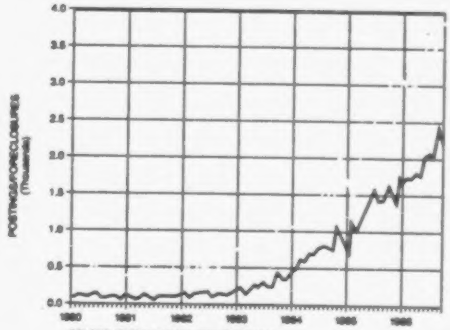
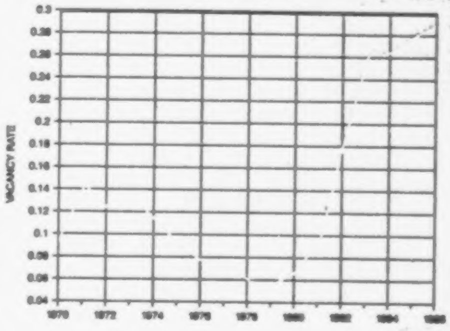
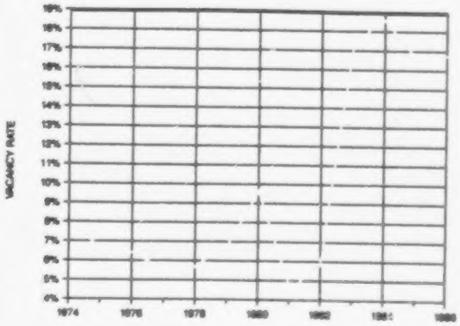


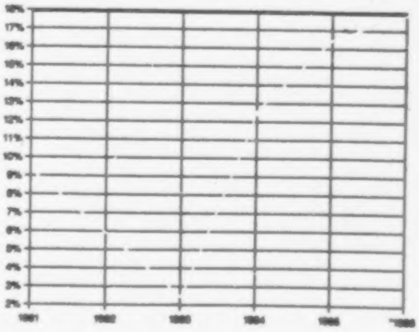
SOURCE: FORECLOSURE LISTING SERVICE
TOTAL POSTINGS —— FORECLOSURES



SOURCE: HORNE COMPANY/CPP

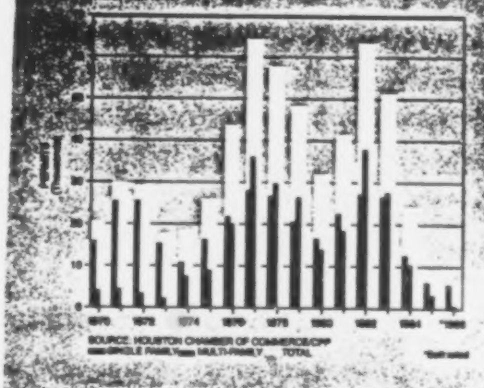


SOURCE: REVAC

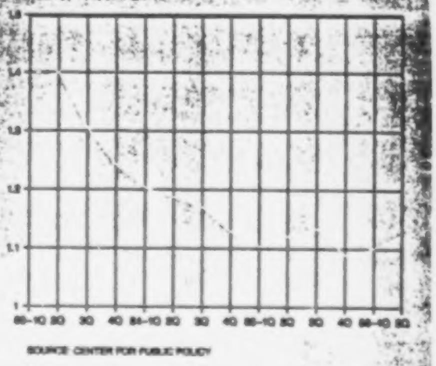


SOURCE: REVAC

Residential Building Permits



SOURCE: HOUSTON CHAMBER OF COMMERCE/CPP
SINGLE FAMILY MULTI-FAMILY TOTAL



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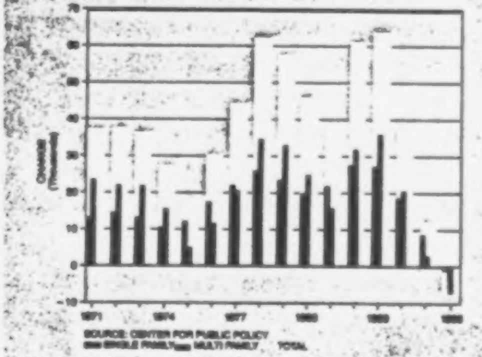
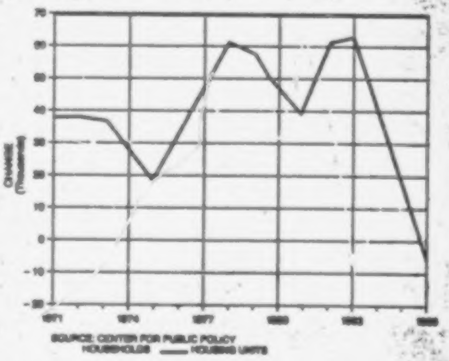
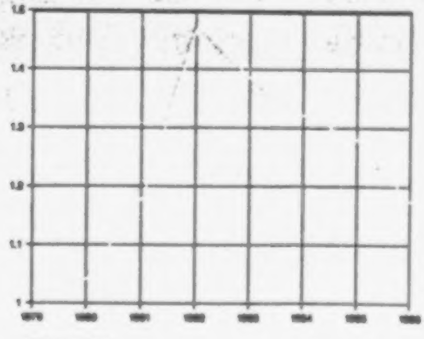


SOURCE: CENTER FOR PUBLIC POLICY
SINGLE FAMILY MULTI FAMILY TOTAL



SOURCE: CENTER FOR PUBLIC POLICY
HOUSEHOLDS HOUSING UNITS

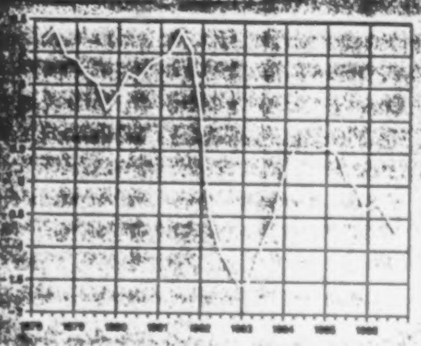


SOURCE: REVAC

	1986	1983
Housing Units Change	−7,197	63,159
Households Change	−2,958	−10,446
Change in Vacancies	−4,239	73,605
Change in Employment	−25,000	−96,600
Change in Home Prices	−1.9%	−10.2%
New Residential Permits	6,366	51,343

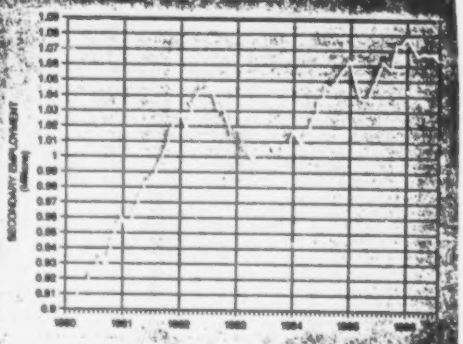
SOURCE: CENTER FOR PUBLIC POLICY

Index of Leading Indicators



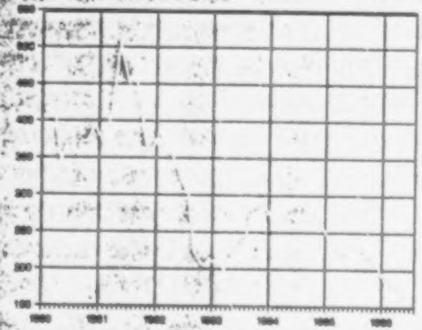
SOURCE: CENTER FOR PUBLIC POLICY

Secondary Employment

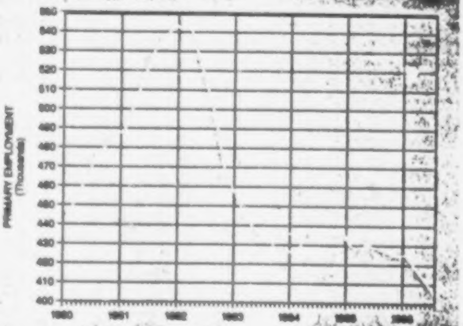


SOURCE: BLS/TEC/CPP

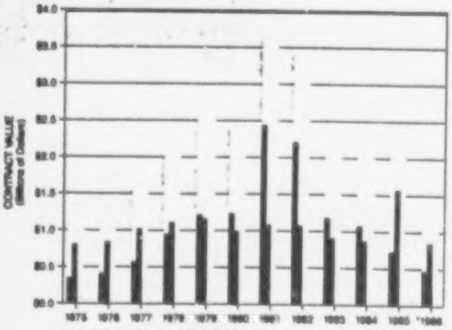
Help Wanted Index



SOURCE: HOUSTON CHRONICLE

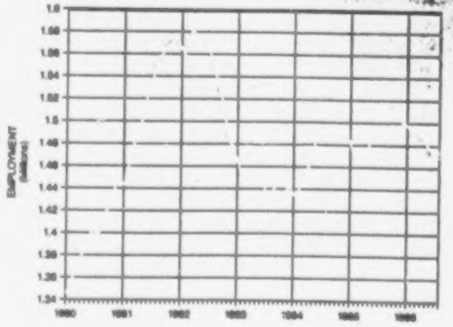


SOURCE: BLS/TEC/CPP



SOURCE: HOUSTON CHAMBER OF COMMERCE
▬PRIVATE ▬PUBLIC TOTAL

*Estimated



SOURCE: BLS/TEC

MADAME CHAIRWOMAN

DAN BURTON

THIS BEING A CONTINUATION OF OUR APRIL 9TH HEARING, I WOULD AGAIN LIKE TO COMMEND YOU FOR ADDRESSING THESE IMPORTANT ISSUES. I AM CONFIDENT THAT WE WILL WORK TOGETHER IN SUPPORT OF THE HIGHLY SUCCESSFUL VA HOME LOAN GUARANTY PROGRAM WHILE LOOKING FOR WAYS TO IMPROVE IT.

THE PROGRAM WAS SET UP TO SUPPORT AMERICAN VETERANS, AND I AM CONFIDENT THAT THIS COMMITTEE WILL ENSURE THAT THE PROGRAM CONTINUES TO SUPPORT THESE VETERANS. THEREFORE, I LOOK FORWARD TO HEARING TESTIMONY TODAY CONCERNING THE FORECLOSURE RATE, APPRAISAL SYSTEM, MANUFACTURED HOMES AND NEW UNDERWRITING WHEN VA LOANS ARE ASSUMED. LASTLY, I

WOULD BE REMISS IF I DIDN'T MENTION THE PROBLEM OF THE HOMELESS VETERANS WHEN WE DISCUSS WAYS OF IMPROVING THE HOUSING OF ALL VETERANS. I WOULD LIKE TO PRAISE THE VA'S PILOT SHELTER PROGRAM FOR THE CHRONICALLY MENTALLY ILL VETERANS. THANK YOU.

AMERICAN
MORTGAGE COMPANY

March 27, 1987

Ms. Marcy Kaptur
Chairwoman
Subcommittee on Housing
and Memorial Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Ms. Kaptur:

We are honored to have the opportunity of making this presentation and recommendations on veteran housing and financing to you and the distinguished members of the Committee. We also want to express our gratitude to Chairman Jack Brooks for being supportive in our hour of need.

I have asked Mr. Allen W. Holton, Executive Vice President in charge of Administrative Operations for American Mortgage Company to appear in my behalf as unfortunately I will not be in the country on this rescheduled date of April 22, 1987. Accompanying Mr. Holton will be Mr. Robert A. Hunter, Special Consultant to American Mortgage Company. Mr. Hunter was formerly Executive Vice President of a major mortgage servicing company in Houston and has since retired but has received many honors for his contribution to the veteran and mortgage banking industry.

We hope by our presentation and testimony of Mr. Holton that we can lend additional insight to the needs of the veteran in the homeownership program as well as assist our company, American Mortgage Company, in these most trying times.

EXISTING CONDITIONS

Between March 1, 1982 and March 1, 1987 the Houston Primary Metropolitan Statistical Area has suffered a net loss of approximately 211,000 jobs. For this to be placed in its proper perspective it should be noted that as of July 1, 1986 there were only 203,000 jobs in total in the state of Wyoming, and for the same peak employment period 244,000 jobs in the state of Alaska. As a direct result of this drastic reduction in the number of jobs in the Houston metropolitan area, Houston needs all the help it can receive to maintain proper real estate values.

In many areas values have been reduced as much as 30 - 50% or greater as a result of the indiscriminate sale of homes using auctions as a vehicle for disposing of property. This approach to dumping of homes has most adversely affected housing in a price range of $55,000 - $75,000 and pre-

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dominantly homes in this price range are either FHA or VA. It is the opinion of the Real Estate Department of the University of Houston that many of these areas are being turned into slums and may never recover. This problem still continues as of this date as evidenced by the fact that approximately 4,700 properties have been posted in Harris County (Houston) alone for the April foreclosure sale.

PROBLEMS AS RELATES TO THE VETERAN

Veteran Liability to VA

A direct impact on veteran borrowers not only results in the loss of equity which has been built up over the years but, in the event of foreclosure, may result in a substantial deficiency which the Veterans Administration is mandated to pursue. In the event of what has become known as "VA no-bids", payment of guaranty only, the veteran is currently faced with a maximum deficiency of $27,500 which may be in excess of the actual loss which would be sustained given an orderly sale of real estate. While there are provisions whereby the veteran may obtain a waiver of a deficiency from the Veterans Administration, the specific criteria is unknown to us since it is not detailed in the information normally provided the lending industry.

Veteran Liability to I.R.S.

As a result of the Deficit Reduction Act of 1984, the same legislation that specifies the formula for the calculation of payment of guaranty only, also provides for **reporting to the I.R.S.** the difference between the debt and the sales price at foreclosure as a forgiveness of debt and therefore income to the borrower. On a no-bid, in order to comply with the foreclosure proceedure of the Veterans Administration, the mortgage lender therefore must subtract from the total debt the amount of guaranty to determine the price to be bid at foreclosure. If you assume the maximum guaranty will be paid, the veteran borrower will be reported, as prescribed by the Deficit Reduction Act, as having $27,500 of unreported income.

Program Assistance to Veteran Borrowers

While there are some provisions under VA's Refunding Program to assist delinquent borrowers, these programs have rarely been used. The program itself provides for the assignment of a loan to the Veterans Administration and a reduction in the interest rate in order to maintain the veteran borrower in his home. However, to our knowledge, this program has not been used to any significant extent in the Houston area during this severe economic crisis. Certainly a better use of the Refunding Program could very possibly have reduced the number of veterans who have had their homes foreclosed upon and thereby reduce the losses of both the lender/servicer and the Veterans Administration. By avoiding foreclosure everyone wins: the veteran, the VA, the lender/servicer, and the community in general since fewer foreclosures means fewer homes to dispose of.

Administration of VA housing programs in economically depressed areas, such as Houston and Texas in general, are therefore not providing a benefit to the veteran borrower but are becoming a potential liability with which the veteran borrower must now live.

INDUSTRY PROBLEMS

Obviously American Mortgage Company cannot speak for all lending institutions in the state of Texas, but it is our opinion that continued support of the Veterans Administration's home loan guaranty program is in jeopardy since losses under this program are now being passed to the originator and/or servicer of VA guaranteed loans, many of which cannot survive an increase in, or the current sustained levels of losses which result from the VA no-bid.

It should be remembered that the Veterans Administration not only established the underwriting guidelines for determination as to whether a veteran qualifies for a loan but has also dictated the **rules** by which these loans must be serviced. The time frames which have been dictated to perfect foreclosure in the state of Texas on an owner-occupied home, whether the occupant is in fact a veteran borrower or an assumptor, results in a minimum of six months of delinquent interest being accrued prior to the actual foreclosure. In addition, by regulation, the Veterans Administration has established requirements such as mandatory acceptance of partial payments and mandatory reinstatement of mortgages which have been posted for foreclosure if funds are tendered five days prior to the scheduled foreclosure sale date.

The losses experienced by holders/servicers of VA mortgages, particularly losses in delays in foreclosure proceedings as a result of the Veterans Administration's failure to provide bidding instructions for the foreclosure sale, which automatically adds an additional 30 days interest to the debt, may result in payment of guaranty only. One month's interest added to the debt may make the difference between a lender/servicer being paid in full or receiving payment of guaranty only, thereby being forced to dispose of the property in a depressed market before the remainder of his investment in the VA mortgage can be recovered. More often than not, this results in an additional direct loss to the lender/servicer. Further expenses are incurred by holders/servicers of VA mortgages as a direct result of the increased time the lender/servicer must wait to receive the first payment on a foreclosure claim. A survey of several mortgage banking firms in the Houston area indicates that it takes a minimum of five months from the conveyance of the property, or a claim is filed, to receive 90% of the principal balance. In an area such as Houston, which is economically depressed and experiencing record high numbers of VA foreclosures, such delays can force a VA lender/servicer into incurring substantial losses with no right of recovery.

The problems as outlined above have been compounded by the fact that the Houston regional office, for the majority of 1986, was imposing a 15% administrative fee for the purpose of calculating residual real estate values to be used in the determination as to whether or not the Veterans Administration should take title to the property or pay guaranty only. This 15% administrative fee was in excess of the 10.5% administrative fee which was being used as a standard on a nationwide basis, as well as other geographical areas within the state of Texas. This not only increased the exposure to loss to the holders/servicers of VA mortgages in the Houston area but also increased the amount of deficiency to be assessed against veteran borrowers.

Pressure has been brought to bear by the regional office on appraisers to reduce values on liquidation appraisals. This is evidenced by a regional office memorandum, dated March 17, 1986, directed to all fee appraisers, a copy of which is attached as an Exhibit. At first glance this memorandum may not seem to be that important, but when you take into consideration that this memorandum was directed to individuals who derive the majority of their income exclusively from appraising loans for the Veterans Administration then the implied message is - **get down values!** We question the use of such pressure since the losses which result from such action must be absorbed by the veteran and the lender/servicer. We were also under the impression that an appraisal should be an opinion of value issued by a qualified individual and such individual should be free of undue influence or duress.

Given the pressure which, in our opinion, has been brought to bear on the VA appraisers and the indiscriminate disposition of property by means of auction, often with no minimum bids, the veteran borrower has seen his equity eroded and becomes discouraged in the struggle to maintain the mortgage on his home. A property immediately down the street from him may be sold for less than half of what he himself owes on his mortgage and the veteran begins to question why he should stay in his home. The deterioration of subdivisions and values within these subdivisions have caused many borrowers simply to abandon their homes. In many cases the maintenance associations for the subdivisons will no longer have funds for basic services such as street lighting, garbage pick-up, or minimum maintenance of common areas. This also contributes to the accelerated deterioration of property values. It is, therefore, our opinion that the appraisal process and the process for disposing of real estate in the Houston area has been flawed. If these practices continue, both the veteran borrower and the lender/servicer will continue to incur losses which are not necessary.

AMC RECOMMENDATIONS

American Mortgage Company would like to offer the following recommendations:

1. The VA, Ginnie Mae, or both might consider issuing standby or takeout letters for up to 2 years to the institution servicing the loan that is being asked to accept a no-bid foreclosure. The takeout would be a guarantee on the part of VA or Ginnie Mae that, at the end of the 2 years, they would purchase the remaining houses that have not been sold after attempts have been made to dispose of the real estate in an orderly fashion. Thus, helping the depressed areas to recover.

2. The VA work with Ginnie Mae to finance a program whereby restructured loans may be included in pools for certificates regardless of their age. There is currently not a market for a restructured loan more than one year old since the majority of government insured loans are placed as securities for Ginnie Mae mortgage-backed securities. This acceptance of the Ginnie Mae program to include loans of this category would give additional incentive to the lending community to rework delinquent VA mortgages since they would now have a place where these loans can be financed.

MBA RECOMMENDATIONS

The Mortgage Bankers Association of America have recommended the following changes which American Mortgage Company wholeheartedly endorse:

1. Delegation of foreclosure authority to lenders would reduce delays in the bidding and foreclosure processes. Congress should grant lenders the authority to: 1) order the pre-foreclosure appraisal, 2) make the required calculation to determine whether VA should pay the guaranty amount, and 3) determine the appropriate bidding instructions at the foreclosure sale.

2. Costs of avoidable delays in foreclosing loans should be borne by VA in cases where VA is responsible for postponing the expeditious completion of foreclosures. Interest that accrues after the lender is ready, willing, and able to foreclose should not be included in the debt about used in the calculation to determine whether there is a no-bid. If VA acquires the property, VA should reimburse the lender for the accrued interest.

3. Delays caused by circumstances beyond the control of VA or the lender, such as bankruptcy, should be considered in adjusting the calculation. The lender should have the option to forfeit accrued interest in exchange for not having that interest included in the no-bid calculation.

4. Cost of delays caused by forebearance on the part of the lender in the hope of avoiding foreclosure should not be charged to the lender. Interest that accrued during the forebearance period should not be included in the no-bid calculation. The lender should be reimbursed by VA for the interest accrued during the delay if VA does acquire the property.

5. Greater use should be made of the deed-in-lieu of foreclosure procedure. VA approval is required prior to lender acceptance of a deed-in-lieu of foreclosure. VA rarely grants approval because it then forfeits its rights to seek restitution from veteran borrowers for the loss the government suffers due to the foreclosure. MBA believes that such a policy is self-defeating and that VA's persistent refusal to accept more readily deeds-in-lieu of foreclosure causes larger overall losses for the Federal government. Acceptance of a deed-in-lieu of foreclosure reduces the cost of acquiring a property, while preserving a veteran borrower's credit record - it is often the most fair and expeditious route, particularly in cases where the default is caused by adverse economic circumstances beyond the veteran's control.

6. Adequate VA staff to administer the program is vital. MBA urges Congress to ensure that VA has adequate staff to administer the home loan guaranty program.

7. Consideration should be given to urging that all lenders who are approved for the automatic guaranty program should be required to originate all of their VA loans on an automatic basis. There is evidence that lender underwriting, which is often stricter than VA underwriting, offers a greater measure of protection against no-bids. Additionally, VA loans that are underwritten and approved by lenders require far less VA staff time than loans underwritten and approved by the VA. This would allow limited VA personnel resources to be shifted to foreclosure processing.

HOMELESS VETERANS ASSISTANCE ACT OF 1987 (S.477)

We are deeply concerned with the problem of the homeless, particularly homeless veterans. While the concept of S.477, the "Homeless Veterans Assistance Act of 1987", is a valid one, we have not had sufficient time to evaluate in depth.

While, as indicated above, we have not researched this problem there is the possibility that the Veterans Administration could swap, for equal value, foreclosed single-family, detached houses for apartment projects. This program would enable the removal of disposed properties from the market and put them to beneficial use.

All of us at American Mortgage Company join in expressing our appreciation for the opportunity of testifying before this Committee, and we would be happy to provide any additional information you may need. We are honored that we are being allowed to make this presentation for inclusion in the record.

Sincerely,

Jake Kamin
Chairman, American Mortgage Company

STATEMENT OF THE
HOUSTON ADVISORY COUNCIL TO VETERANS ADMINISTRATION
PROPERTY DISPOSITION
BEFORE THE
HOUSE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
BY
LORAINE ALLISON, CHAIR
HOUSTON ADVISORY COUNCIL TO VETERANS ADMINISTRATION
PROPERTY DISPOSITION
APRIL 22, 1987

INTRODUCTION

Madam Chairwoman, Distinguished Congressional leaders, and guests:

My name is Loraine Allison. I am a realtor from Houston, Texas and Chairwoman of the Houston Advisory Council to VA Property Disposition. On behalf of the more than 9,000 real estate professionals in the four organizations comprising this advisory council, I want to thank you for the opportunity of presenting our views on the problems of the Loan Guaranty Office in the Houston VA Regional Office, and specifically the urgent need for additional staff and equipment in the Property Disposition Section.

Our Advisory Council was formed eight months ago at the request of many concerned real estate professionals in Houston who are VA approved brokers and agents. The real estate organizations comprising the council are:

The Houston HUD Brokers Association
The Houston Real Estate Association
The Houston Board of Realtors
The Houston Hispanic Brokers Association

It is important that you know that, though we are officially recognized by the VA Central Office as an advisory council and work with the Houston Regional Office toward common goals, we are completely independent of the Veterans Administration. Our time is volunteered and we are in absolutely no way funded by the VA. The council cherishes this seperate status for it gives us total freedom in reaching decisions as to our recommendations. We meet weekly for planning sessions and monthly with the administrative staff from the Houston Regional Office.

ADVISORY COUNCIL GOALS

The Houston Advisory Council made a serious committment eight months ago, when it was formed, to increase sales by at least 300 percent from approximately 200 sales per month to a minimum of 600 sales per month. To this end, we have produced a thorough pricing study and a complete management study, had a computer consultant make a study of the computer equipment needs of the Houston VA office and had a panel of experienced real estate attorneys assist in recommending guidelines for certain new sales closing procedures. We have recommended weekly educational seminars to teach sales brokers the sales procedures of the VA program, and to this end we have procured a centrally located meeting space for up to 300 guests, at no cost. This is the fourth trip to Washington Houston real estate brokers have made to discuss the urgency for change in the Property Management program in Houston in the past year and, in addition, we have met in Houston on three occasions with staff from the Central Office of the Veterans Administration. As a result of our efforts, 15 major recommendations have been submitted by the council concerning the sales and management in Houston.

THE PROBLEM: STAFFING AND BUDGETARY SHORTAGES

The Houston Regional Office has, as far as its budgetary limitations have allowed, attempted to implement as many of our recommendations as possible. But the key word here is "limitations" and that is why four of the eight delegates to the Advisory Council have flown to Washington this week to meet with you. We implore you, ladies and gentlemen, to assume a position of encouraging the Veterans Administration Central Office to act immediately to assign additional staff, office equipment and furnishings, computer equipment and funds for overtime and contracts beyond what is now allocated for Fiscal Year 1987.

Houston's economic woes, due to the depressed oil industry, are a frequent topic for the press, so I feel certain that you are aware of the high volume of foreclosures flooding the Houston VA Regional Office. Though the geographic boundaries of the region encompass a large portion of South Texas, including Corpus

Christi and San Antonio, the vast majority of the properties in the region are located in the greater Houston are. Historically, about 70% of all loan guarantee activity for the Houston VA Regional Office has taken place in the greater Houston Area. Currently, the Regional Office has title to 4,817 single-family properties and has another 1,737 properties pending aquisition. Properties are being foreclosed on and title conveyed to VA at a rate of 356 properties per month, over the past twelve-month period. Last month, March of 1987, 483 properties came into inventory. Please refer to Page 9 and review the graph for the number of vacant VA properties waiting to be sold each month in our city. You will notice that the total number is growing and, of course, this means that sales are not keeping pace with acquisitions.

As real estate professionals, as concerned citizens and taxpayers, the brokers and sales agents in Houston are gravely concerned about this trend. Let us be crystal clear in relating the "bottom line." The rate of forclosures sales by the Houston VA Regional Office is very low (289 sales closed in March, 1987) compared to sales of HUD forclosures (497 sales closed in March, 1987) and other real estate owned properties and regular resale properties in Houston (2,280 sales closed in March,1987). Why is this so? Not because there are not buyers. Not because there is no competitive, enthusiastic sales force. It is because, ladies and gentlemen, the program is "ham-strung" with inadequate computer equipment, staff and money for its work load. Properties sit vacant often prey to vandals and certainly physical deterioration, becoming more of a liability to their neighborhoods and the economy each month. Of the total available inventory, 1,740 properties have been on that list, and available for sale, for over one year. This, at a time when the Houston homebuyer market is at a fever-pitch with record sales being reported by other property programs.

THE TAXPAYER DOLLAR LOSS

Millions of taxpayer dollars are being needlessly wasted on "holding cost" to manage vacant properties and pay the taxes on them. The Advisory Council, using data we requested of the VA Regional Office, has established that the dollar loss on the properties currently in inventory, based on a conservative $18 per day holding cost, is running close to $20 million and growing every day. That amount of loss to our government certainly stirrs us to help rectify the situation and Council is sure this is information our Congressional Leaders want to know in times when the U.S. budget deficit soars. We have buyers eager to purchase VA forclosures, but the sales and management program in the Houston Office is processing files at a rate so slow as to appear to be moving backwards. The listing of available properties is grossly inaccurate, because the office is forced to manually update the status of properties, instead of inputting such stauts reports to a computer network. There exists only one Sperry PC computer for the entire Loan Guaranty Section. As a result, the sales force shows and writes offers-to-purchase by the hundreds each month on properties which are listed in error. The waste of time is a stinging blow to real estate professionals. Offers which are accepted for loan processing have to be handled so hastily that many times simple credit questions seem too time-consuming to pursue and the VA loan specialist rejects the buyer and relists the property for sale, feeling she cannot afford the time of aggresively seeking the additional credit history needed to approve the loan; and so the cycle continues.

RECOMMENDED SOLUTIONS

Attached (Exhibit A) is the Advisory Council's computer equipment recommendations as per our computer consultant, dated, October 16 and November 13, 1986. The VA Central Office is currently working to provide $6,200 towards to purchase of software to augment and update the computer equipment in the Houston Office. The staff of the Houston Office and the agents and brokers in Houston are elated over this development. We sincerly hope this will be an adequate funding to buy all of the equipment recommended.

Also attached (Exhibit B) is a copy of the Regional Office's own assesment of their needs as to staffing, computers, and funds, dated, October 15, 1986, as submitted by Houston Regional VA Director, Mr. Ted Myatt. Since that memo, a total of ten additional personnel positions have been granted by the Central Office; six to the Property Management Section and four to the

Loan Service and Claims Section. This leaves 24 positions still needed. The Council concurs with the Regional Office's assessment of staffing needs and makes an additional recommendation that three highly trained and experienced computer processors be employed as permanent positions. It would be a travesty if the requested equipment is granted but is not able to be effectively employed due to a lack of computer expertise. Houston's staff handles an average of 148 properties each, as compared with 92 properties per person as a national average. These are very telling statistics. The workload is overwhelming for the Houston staff.

As to funds requested for over-time and contract labor the Council is satisfied that the Regional Office's request for $20,000 per quarter is reasonable and probably a bit conservative.

Conclusion

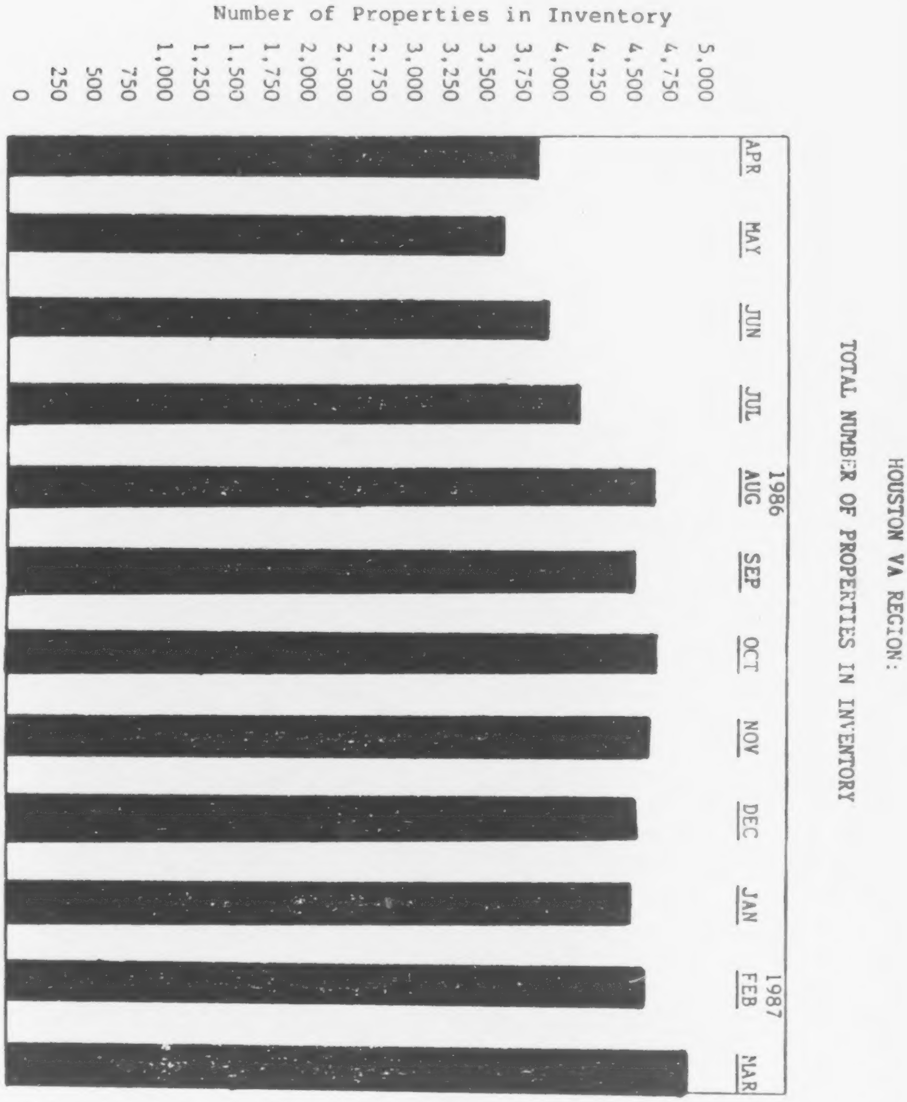
Madam Chairwoman, the Houston Advisory Council respectfully requests the help of these Sub-Committee members in granting the following additions to the Houston VA Regional Office:

		Estimated Cost
A)	27 additional FTE..................	$585,000/year
B)	Computer equipment as itemized on Page 6.............................	7,000
C)	$20,000/quarter over-time/contract money..............................	80,000/year

The total cash outlay from VA for all items requested for one year will most likely be under $700,000. Compare this to the current and mounting loss of close to $20 million in holding costs (a figure which does not even include physical depreciation and loss due to vandalism) and we believe the investment we are recommending would be a prudent one.

Thank you for the opportunity to present our concerns.

Loraine Allison, Chair
Advisory Council to VA Property Disposition



HOUSTON VA REGION:
TOTAL NUMBER OF PROPERTIES IN INVENTORY

VIETNAM VETERANS AMERICA

CHAPTER 35, VIETNAM VETERANS OF TOLEDO
P.O. BOX 6436 TOLEDO, OHIO 43612 (419) 242-2293

VA HOME LOAN GUARANTEE PROGRAM

and

THE HOMELESS VETERAN

STATEMENT

of

MICHAEL A. FLOWERS
PRESIDENT

VIETNAM VETERANS OF AMERICA
TOLEDO CHAPTER 35

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

APRIL 22, 1987

320 W. WOODRUFF • SUITE 201 • TOLEDO, OHIO 43624

Miss Chairwoman, Vietnam Veterans of America (VVA) Toledo Chapter 35 and I thank you for the opportunity to comment on the VA Home Loan Program and the homeless veteran issue.

First, I would like to briefly explain the difference between the VVA National Office and Toledo Chapter 35 of the VVA. In Toledo, we consider ourselves part of the first line of defense of the organization - in the field or trenches, so to speak.

Our national leadership in Washington is more of a command post, or headquarters. Our Washington leaders are busy with all aspects of the organization's operations. Information is constantly sent to the chapters for use in their efforts to aid the local Vietnam population. VVA National has the finest staff and elected leadership of any Veterans Service Organization. Local chapters throughout the country are equally well-staffed.

When I received your correspondence requesting my comments on the VA Home Loan Program, I was, at first, apprehensive. You see, I must confess, I am not as knowledgeable about the mechanics of the program as I possibly should be. I am not saying that the program is not an important one. What I am saying is that at the chapter level in Toledo, it is not a program that we have monitored closely. Our priorities have not afforded us the opportunity to develop views differing from those of our National VVA leadership. I therefore ask you to allow our VVA National leadership to also express their views on this important program.

There was, however, another topic in your correspondence which I am qualified to comment upon: the homeless vet. Over the past six years we, in Toledo, have taken pride in our efforts to address the important issues that our community's Vietnam veteran population has brought to our attention. Employment has always been at the top of our list. Chapter 35 is well known for its annual Job Fairs. Counseling and other related services are equally important to us.

Recently, an alarming number of homeless veterans has found its way to our doors. I would like to point out three cases which occurred in March, 1987.

The first case had to do with a call I received from the Lucas County Sheriff's Office. A Vietnam veteran had wandered into a Toledo mental health facility, thinking he was at a VA clinic. He was told that he was mistaken, but he insisted upon being seen by a VA doctor. He refused to leave, became violent, and was subsequently arrested for trespassing. Our chapter office was contacted by a counselor at the county jail. After some initial inquiries, I was able to determine that the veteran in custody was not from Ohio. He had been treated and released from a mental health ward in a Chicago VA hospital. My priority here became the veteran's health care. I was able to gain his release to a Catholic Charities shelter, get him an appointment at our local VA Outpatient Clinic, and have his records transferred to Toledo for his future treatment.

The second case involved a veteran with a severe alcohol problem who had just been released from jail. In his efforts to get back to his home in Cincinnati, he contacted our offices. Since he was an Ohio native, we were able to confirm a VA appointment for him in Cincinnati and transfer him by bus to his home. Prior to our involvement, he had been thrown out of a homeless men's shelter because of his alcohol problem. Without our intercession, I am sure that this individual, given his violent nature, would have committed a crime or would have continued to roam the streets of our city until he was arrested again.

The third case involved a family: a Vietnam veteran, his wife, and their infant child. For two days, in freezing temperatures, they had been living in their broken-down car. They had no money, no food, and little hope. I was able to assist them in finding immediate shelter and hopefully helped to prevent a potential tragedy.

In each of these cases, we were able to help. But it isn't enough. Once we put these veterans into shelters, it's no more effective than putting a band-aid on a wound which requires stitches. We, at Chapter 35, are in the business of doing much more. We want to help these once-proud Americans realize their full potential again. To this end, we are developing a Veterans Housing Program in Toledo, Ohio.

I believe that cases such as these are not exclusive to Toledo, Ohio. In fact, I am sure that the problem is more widespread in areas where the climate allows for a nightly shelter to become a luxury rather than a necessity. I feel that something must be done to help this country's nightly 230,000 homeless veterans.

The Homeless Veterans Assistance Act of 1987 (S. 477) seems to be a step in that direction. In a summary of S. 477, it is mentioned that an estimated 57 properties nationwide could be turned over to non-profit organizations for use as shelters. This number, although low, is a start. If programs can be started in the areas where those properties exist, a few of our country's homeless veterans may have a chance to take shelter for a few nights.

Shelter only, however, is not enough. These veterans need more than a place to sleep. They need help in a variety of areas so that they may successfully be re-integrated into society. To accomplish this, we at VVA Chapter 35 in Toledo, are developing a program that will not only provide a night's shelter for veterans, but will allow them to take advantage of services that will hopefully keep them from returning to the streets.

I would like to briefly introduce the concept of Chapter 35's Veterans Housing Program by first providing you with a few statistics. The statistics provided here are courtesy of Dr. Harvey Hilbert of the Rainbow Counseling and Research Center in Brecksville, Ohio.

In 1985, utilizing federal grant money, 979 male and female Ohioans, from urban and rural areas, were questioned. Toledo was included in this study. The study was originally intended to determine the needs, status, and background of the participants, and to see what help could be offered by Ohio's mental health agencies.

Upon completion of the study, some very important figures began to emerge pertaining to Ohio's veteran population. The following figures were obtained during a phone conversation with Dr. Hilbert. The statistics were drawn from the study's computer sheets. This 'raw data' does not appear in the final printed report by the Rainbow Counseling and Research Center.

Of the 979 participants taking part in the study, 34% were veterans. Of this 34%, 11% were Vietnam veterans.

Of the Vietnam veterans asked, 'Where did you sleep last night?': 23% had no shelter (slept under bridges, in parks, etc.)
13% had minimum shelter (abandoned cars, doorways, etc.)
31% slept in shelters (missions, etc.)
18% had single room hotels
% [illegible] other arrangements

The following statistics will show percentages for three groups of participants: Vietnam veterans, other veterans, and the general public.

An inquiry was made as to the participants employment status. They were asked, 'Have you worked in the past month?' Of those answering 'yes':

26.5% were Vietnam veterans
26.4% were other veterans
23.9% was the general public

The percentages of participants who used emergency rooms or free clinics were:

27.7% Vietnam veterans

25.9% other veterans

23.6% general public

Of those asked if they had used a mental health hospital (state): 35% were Vietnam veterans

32% were other veterans

28% was the general public (Note: The national rate of the general public's use of these facilities is 12%.)

Those asked if they had used mental health clinics (local or county): 18% were Vietnam veterans

11% were other veterans

12% was the general public

Of the veteran participants in the study, the question was asked, 'Have you used VA facilities (clinics, hospitals)?'. Of those answering 'yes':

21% were Vietnam veterans

15% were other veterans

Of those participants who had used overnight shelters in the past: 67% were Vietnam veterans

63% were other veterans

52% was the general public

Those participants who used 'soup kitchens' were:

74% Vietnam veterans

64% other veterans

58% general public

The following questions concern drug and alcohol use.

Answering 'yes' to the question, 'Do you drink heavily?' were:
49.4% Vietnam veterans
46.26% other veterans
44.1% general public

Answering 'yes' to the question, 'Have you sought help for your drinking problem?':
34.94% Vietnam veterans
37.44% other veterans
21.82% general public

Answering 'yes' to the question, 'Do you take non-prescribed drugs?':
39.7% Vietnam veterans
27.31% other veterans
32.88% general public

Answering 'yes' to the question, 'Do you take prescribed drugs?':
22.89% Vietnam veterans
18.94% other veterans
23.77% general public

Answering 'yes' to the question, 'Have you ever been in prison?':
6.84% Vietnam veterans
15.63% other veterans
36% general public

Other statistics not listed here show that the general public uses the local welfare system more than the veteran population. The reason for this, I was told by Dr. Hilbert, is because females made up a large part of the group, and they are more likely to use general welfare.

On the issue of mental health, I learned that a large number of the Vietnam veterans in the survey took advantage of treatment in either local clinics or VA facilities a short time after their discharge from service.

I believe that the statistics presented here show that the veteran population, particularly the Vietnam veteran, does use agencies and services that are available to him. It is also evident that a large part of the Vietnam veteran population has an alcohol or drug problem, and is not seeking help as readily as the others in the survey. The statistics do show that the Vietnam veteran has a much lower prison record than either of the other two groups.

All of these figures are encouraging to those of us who wish to help our brother and sister veterans. Given the large number of veterans who take advantage of services available to them, I am confident that they will be interested in the project that VVA Toledo Chapter 35 has planned. We intend to seek out homes in the Toledo area, at low or no cost, and restore them so they can be used as temporary shelters for homeless veterans in our community. We will secure talented people to volunteer their time to train homeless veterans in all aspects of home restoration. During this process, we will counsel veterans in all areas: alcohol and drug abuse, mental health, and employment.

The three-phase project will span a period of three years. Phase one will allow us to target our intended veterans as wel as co-ordinate the network of volunteers required to both train and assist us in our restoration of homes. I am hopeful that we will be able to complete this phase in six months. I have requested two volunteers from VISTA to help out in the project.

In phase two of the project, we will need to address all legal and financial problems. A search for homes will also begin at this time. Once a suitable home(s) is found, we will need estimates of both time and money needed to make it serve our needs. After we know what is needed, we will gather the raw materials and tools required to complete the renovation. I intend to use PSA's, contributions, and other fund-raisers to gather the required money. After all of the needed elements are in place, the volunteer team of workers plus the veterans who will soon inhabit the home will go to work. At this time it is hard to determine the length of time needed to restore each home. Hopefully, no more than three months will be needed at each site. Upon completion of the home, furnishings will be added, again using all resources available to us.

During the occupancy of our homes, the veteran will be taught useful skills, and hopefully will gain a more positive attitude about himself. If we are unable to find suitable employment for the veteran, or if more time is needed to counsel the veteran, he (or she) shall continue to be one of our workers, living in the home he restored while working on the next home with others like himself.

The final phase of the project will be to renovate homes for family occupancy. Many Vietnam veterans around the country will never know the joy that comes from owning your own home. Due to economic (as well as other) circumstances, they are finding themselves out of work and out of money, with a family to support. These families deserve as much of a piece of the 'American Pie' as the rest of us. It is our intent, through our Veterans Housing Program, to sell our restored homes on land contract to qualified veteran families.

This project, as you can see, is an ambitious one. All of the details are not included in this writing. Many talented individuals are going to be asked to volunteer their time to make it succeed. We will be very busy, and we intend to make our community proud. VVA Chapter 35 is no stranger to taking on large projects. We have no fear of the unknown. Nothing is more important to us than the welfare of ALL of our country's veterans.

In conclusion, Miss Chairwoman, Vietnam Veterans of America Chapter 35 supports the 'Homeless Veterans Assistance Act of 1987' that has been introduced by Senator Cranston. But at the same time [illegible] [illegible] that much more needs to be done for America's homeless veterans. The VA must be directed to address this problem. Until that time, VVA chapters like ours will do all that we can to [illegible] the problem. The Vietnam veteran is no stranger to the feeling of having been abandoned. We are proud to have served our country and we will continue to serve as long as one of our brother or sister veterans needs us.

Thank you for allowing me to express my views on this issue.

THE NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

"STRENGTH IN UNITY"

STATEMENT OF

Richard W. Johnson
Director of Legislative Affairs

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

on

VA HOME LOAN GUARANTY PROGRAM

April 22, 1987

NATIONAL CAPITAL OFFICE
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The Non Commissioned Officers Association of the USA (NCOA) sincerely appreciates the invitation of the committee to comment on the Veterans Administration Home Loan Guaranty program. This program is one of special importance to the highly mobile active duty population of NCOA and it is also a program of great benefit to the Nation. NCOA commends the subcommittee and extends its appreciation for holding these hearings to review the program.

Loan Guaranty Program

Since it was founded the veterans' home loan guaranty program has had three goals: 1) assist the veteran in purchasing a home; 2) assist the veteran in retaining the home; and, 3) manage the program effectively to minimize its cost. In real terms it has done well meeting these objectives but it is important to note what the objectives do not say. They do not say to help only wealthy veterans to buy homes. They say nothing about assisting only some veterans in retaining their homes. Neither do they say the program should be cost free to the government or fully supported by fees charged to veteran participants.

Over the past 43 years the program has been one of the most successful and stable VA benefits. It has assisted more than 12 million veterans purchase homes valued at over $275 billion. In fact, it has been estimated that if placed side by side the homes guaranteed by VA loans would circle the globe 7.6 times. These figures attest to the success of meeting the program' first objective. At the same time, foreclosures in the VA program have been limited to about four percent attesting to its success in helping veterans retain their homes. And it has fulfilled a national and social objective of providing housing while increasing the tax base of communities and states across the country.

Managing the program in an effective manner to minimize its cost deserves both praise and criticism. The VA program has been a trend-setter from its inception through the 1970's; its management innovative and its success measurable in the absence of need for annual appropriations. Indeed, even in its current dilemma the loan guaranty program is probably the least expensive per capita benefit available to veterans. Yet a combination of factors has led to substantial losses in recent years. Most of those losses can be attributed to early privatization efforts of previous Administrators which are also responsible for funding fees and other adverse proposals to change the program.

Funding fees were initiated by Congress to help offset the need for massive appropriations to the VA's Loan Guaranty Revolving Fund (LGRF). The LGRF required appropriations because the income from its assets (interest earnings on loans in its portfolio) no longer exceeded its outlays (payoff on guaranties or aquisitions of properties in default). The deficit in income exists largely because prior presidential administrations discovered that the sale of loan assets produced income which could be used to reduce deficits and at one point ordered the VA to liquidate loans on such short terms that they could only be sold at a loss. This constituted poor management. Such poor management required Congress to authorize nearly $2 billion between 1978 and 1986 to the program which required no additional authorizations between 1958 and 1978. It is estimated that as little as $200 million would have been required to keep the LGRF solvent if portfolio assets had not been liquidated with fire sale mentality. Now the Administration wants to sell more loan assets, some at substantial discounts below face value, at both the VA and other agencies. Such sales, as in the past, will provide short term and one time relief from budget deficits. But, like real property sales, airport sales, moving paydays and the sale of other assets they offer no long term solutions to spending deficits and exacerbate problems in the future by reducing income. This too, is poor management. Yet veterans are paying for this poor management in the form of funding fees on home loans. That is shameful.

Funding fees and loan sales are only the tip of the iceberg. In recent months the VA has changed its underwriting criteria and has proposed changes in fixed interest rate requirements.

While elimination of the fixed interest rate has no fiscal impact on the VA it can have a devastating impact on home buyers. The current maximum rate is established and adjusted under law by the Administrator to reflect current market trends. It is generally kept at the low end of the market scale for mortgage lending to assure somewhat universal treatment of veterans in home purchases. Taken together with the "point" limit it precludes situations where veterans may pay vastly different prices to finance homes of relatively equal value. This fixed rate also serves the nation as something of a benchmark with which commercial lending institutions must compete. In other words it keeps the mortgage lending rates competitively low--not artifically low as many allege. It is unlikely that veterans will be able to "negotiate" rates as the VA states. Instead, rates will continue to be set by individual institutions, not really subject to the kind of give and take the word negotiate implies. Furthermore, with no rate ceiling or competitive mark, lending institutions will be free to set their own rules. For example, rates may be fixed at one level for 80 percent loans, at another higher level for 95 percent loans and at a still higher level for no money down loans, a denegrating mainstay advantage in the VA loan guaranty program. Additionally, while the point limit may remain in law, there does not appear to be any method of preventing point shifting from the seller to the veteran by increasing the loan interest rate. NCOA firmly believes elimination of the fixed maximum rate would be extremely detrimental to veterans.

The changes in underwriting criteria were made rather gratuitously by the VA in a defensive effort to placate those who allege that the more liberal previous rules were in some way responsible for high foreclosure rates. However, there is no data to link VA underwriting criteria and mortgage foreclosures. NCOA believes most foreclosures are caused by unpredictable events not likely to be disclosed or discovered during credit screening. Divorces, illness, unemployment and other unforeseeable events are the primary causes of foreclosures. When compounded by the economic recession of the early 1980's and the VA's portfolio liquidation and management practices, it is easy to see how the loan guaranty program was caught short of funds. Yet, it is the veteran who is paying the price in funding fees and in the denial of participation in the program by changes in underwriting rules and criteria that were undesirable and unnecessary. The shame here is that there is no way to quantify the number of veterans adversely affected by the new rules.

All of these practices encroach on the fundamental values of the program to the veteran. Those values are no money down loans, fixed interest rates, fully assumable mortgages, and slightly more liberal underwriting criteria than might be found commercially. Each of these benefits are being slowly eroded by a lack of positive leadership to assure that the program meets its three basic goals.

Recommendations

The solution to the problems reside in a simple return to basics. Help the veteran buy a home. Don't extend the fee, let it expire as intended by its sponsors at the end of September. Reinstate the more liberal underwriting standards unless and until the VA can draw a statistical basis for the change. Increase the amount of the loan guaranty to keep the program viable and preserve the VA fixed maximum interest rate.

Help the veteran keep his home. Resist efforts by the VA and mortgage lenders to change forebearance policies. Don't lead the veteran into trouble by authorizing risky propositions like adjustable rate mortgages. Insure that the VA is properly staffed to review problems and counsel veterans who are having trouble. Permit the refinancing of homes by veterans who have been transferred. This is particularly important to active duty servicemembers.

Finally, insure the program is managed properly to minimize its cost. In all candor, the VA Loan guaranty staff has made an heroic effort to preserve the program in the face of adversity over the past few years. But they have been hobbled by staff shortages, OMB directives to sell, sell, sell and the absence of sophisticated equipment to properly service the portfolio. This is the portion of the program which needs congressional attention. Loan sales should be prohibited when made simply to meet OMB timetables and objectives. Prohibit the liquidation of the VA's portfolio. Instead build it to its profit making potential. Provide the VA with the staff and equipment necessary to achieve these goals. Government has no reason to divest itself of loan programs and profits to enrich private industry as the President or OMB might have us believe. Instead the profit should be used to run the program.

Supplemental Proposals

In addition to those issues addressed above, NCOA was asked to comment on proposals to require new underwriting on the assumption of VA loans and to require downpayments on manufactured homes. NCOA opposes both proposals.

Requiring new underwriting on VA assumptions is aimed at reducing equity skimming and indebtedness caused by foreclosures on assumed loans. The proposal is well intended but has more pitfalls than profits. Equity skimmers will not be deterred since few actually attempt to legally aquire the house. Additionally, according to VA statistics only about 12.5 percent of the homes in foreclosure are assumptions which may result in a debt to the orginal veteran owner. These debts might have been avoided had the veterans been counseled on their privilege to request release from liability at the time of sale. However, requiring new underwriting would give lenders an opportunity to escape from less profitable low interest loans by denying assumptions to suitable buyers, to charge fees on assumptions, and delay sale proceedings. The enactment of this proposal would interfere with one of the fundamental benefits of the program; the advantage of quick and easy sale.

Requiring down payments on manufactured homes is an equally undesirable proposal. Foremost, it sets a dangerous precedent in the loan guaranty program. Moreover, it inequitably treats veterans whose means or desires limit them to the purchase of manufactured homes. NCOA does not deny the problems which have led to this recommendation but it does oppose the solution.

Homeless Veterans

Finally, NCOA has been asked to comment on S.477 a proposal relating to homeless veterans and has been asked to provide statistics on the number of homeless veterans in the United States.

A study by a Harvard University economist concluded that the number of homeless people in the United States in 1985 was approximately 350,000. Today, estimates are running as high as 3,000,000 persons. The study also concluded that for every person living in shelters there are 2.3 homeless persons living in streets or parks. The number of homeless is increasing, in part, because there is an increasing shortage of low-cost housing and, in part, because low-income people are not making income gains. More recently, homeless families have gained national attention. Homeless families are displaced almost exclusively due to economic problems. One-third of the homeless population are believed to be suffering from mental illness or are drug and alcohol abusers. Some advocacy groups estimate that as much as one-third of the homeless population is comprised of veterans. It is suspected that the profile of the homeless veteran is a microcosm of the homeless population at large.

The Veterans Administration (VA) is required by law to provide benefits and services only to persons who qualify as a result of prior military service under other than dishonorable conditions. A recurring problem concerning determination of eligibility lies in the unwillingness or inability of some of the homeless to provide the VA with basic background information, such as name, Social Security Number, date of birth, and dates of military service. Current outreach efforts have proven to be extremely frustrating to those individuals trying to assist homeless veterans as the veteran feels disenfranchished from society and has proven to be uncooperative the majority of the time.

One major problem facing the VA and other federal agencies involved has been in determining the actual number of homeless veterans. In many instances, in addition to being unwilling or unable to cooperate, they happen to be highly mobile. This high mobility in itself creates serious problems in determining the assets and resources needed to reach and assist the homeless veteran.

Many of these issues are directly addressed in the Senate legislation. As a result NCOA supports S.477. However, care must be taken to assure that in whatever version of the bill is adopted veterans must be protected against unjust indebtedness on the transfer of housing and the integrity of the VA program is shielded from raids by other groups seeking low cost housing. Additionally as NCOA said in its statement to the Senate committee on this issue, efforts in this area should be coordinated with an expanded vet center role in providing outreach and counselling to homeless veterans.

Thank you.

-end-

Statement of
David Passamaneck
National Legislative Director

AMVETS

Before the
Veterans Affairs Committee
Subcommittee on Housing and Memorial Affairs
U.S. House of Representatives

on

The VA Home Loan Guaranty Program

April 22, 1987

Madame Chairwoman, AMVETS appreciates this opportunity to express our thoughts regarding the effectiveness of the Veterans Administration Loan Guaranty Program and suggested plans for assisting homeless veterans.

The VA Home Loan Guaranty Program has over the years proven itself to be one of the two most widely used and appreciated entitlements provided to veterans; the other, of course, being the GI bill. Not only has this program enabled more than 12 million veterans since World War II to obtain their own homes, but its beneficial impact on the construction and mortgage industry has yet to be completely measured.

The enactment of this legislation in 1944 brought about a big demand for homes and started the greatest home construction boom in history. More than eight percent of home loans made in this country since 1944 are guaranteed by VA.

The impact the home loan guaranty program has had on the housing industry has been tremendous. The influx of capital and the number of persons who are able to purchase homes because of the favorable financing has had a real positive effect on home building which is one of the main industries in our country.

During the Home Loan Guaranty program's 43-year history, VA has guaranteed loans totaling more than $270 billion, and the program seems to be getting more popular as it ages. In the first three months of fiscal year 1987, lenders have been given VA guaranties for $7.1 billion in mortgages, more than double the amount for the same period in the last fiscal year, pushing the program toward another record-breaking year.

In substance, AMVETS approves of the Loan Guaranty Program as it is and sees no reason to fix it or tamper with it. We appreciate, Madame Chairwoman, your initiative in introducing House Concurrent Resolution 79 on 16 March 1987 reaffirming the sense of Congress that the 1 percent fee charged by the VA to veterans obtaining a home loan guaranty should not be increased. The Administration's arguments in support of raising the fee by 150% ignore the basic foundation of the program as an entitlement and a readjustment benefit rather than a business investment. One wonders how anyone can seriously think of excluding thousands of no-down payment veteran home buyers from the market as a result of raising the fee, while at the same time, at least in the Senate, an $85 billion housing bill, has been introduced which would among other things, create a new federal program to grant interest-free home loans to low- and middle-income purchasers in "depressed" areas. Here in the nation's capital, you could make $41,000 a year and qualify.

AMVETS is also opposed to the Administration's proposal to free the limits on allowable interest rates for VA guaranteed loans, which has been embodied in H.R. 1998 and S. 920, which would also increase the loan fee.

Since the inception of the 100th Congress, despite repeated warnings about the necessity for budgetary restraint, to include veterans programs, massive and very expensive programs purportedly to provide a wide range of assistance to the "homeless" have been enacted or are pending. These measures include the Homeless Emergency Relief and the Emergency Aid to Homeless Families Act (H.R. 274 and H.R. 437) and the Homeless Persons Survival Act (H.R. 180) which have been enacted; as well as the following measures which are pending: S.4, 37, 809, 810, 811, 812, 813, 477; H.R. 4, 286, 290, 287, 288, 289, 558, 598. S. 809, The Urgent Relief For The Homeless Act alone would cost over $400M.

None of these measures even begin to address the root causes for the current expansion of the homeless population--rent control, the de-institutionalization of the mentally ill, and the misdirection of HUD funds into such boondoggle programs as UDAG which enables promoters to build shopping centers and luxury hotels.

Of particular interest to veterans is S.477, the Homeless Veterans Assistance Act of 1987, passed by the Senate on 31 March 1987. S.477 authorizes the VA to assist in providing shelter for homeless veterans in two principal ways:

- By selling hard-to-sell houses from the agency's inventory of over 21,000 properties acquired as a result of defaults on VA loans to veterans' organizations and other non-profit organizations for use as shelters primarily for homeless veterans and their families.

- By leasing underutilized VA facilities for use as emergency shelters for homeless veterans.

In neither case would the VA operate the shelters or be responsible for their activities.

In addition, the bill requires the VA to establish a pilot program, for at least two years in 10 geographic areas with significant populations of homeless veterans, that would develop various outreach and other activities to improve the VA's ability to assist homeless veterans and their families.

The bill also will extend eligibility for job training under the Veterans' Job Training Act to unemployed veterans of the Vietnam or Korean conflicts who are homeless or who have service-connected disabilities rated at 30% or more. The bill authorizes a $30 million supplemental appropriation to keep the program running.

Another provision in the bill requires the VA to carry out a 2 1/2 year pilot program of contracting for community-based residential care for homeless veterans suffering from chronic mental illness disabilities. Up to $25 million could be spent for this program.

Finally, the bill provides for a one-year delay, from October 1, 1987 to October 1, 1988, of the date by which the VA's readjustment counseling program for Vietnam-era veterans is to begin a 2-year gradual transition from being a program providing counseling services primarily through Vet Centers, which are located apart from the VA's general medical facilities, to a program providing services primarily through the VA's general medical facilities.

AMVETS has no objection to the provision in S.477 for sale of foreclosed properties to veterans and other non-profit organizations, understanding that this procedure will have no adverse impact on either the financial integrity of the Loan Guaranty Fund or the defaulting veteran. A successful trial of this proposal is now being carried out in the District of Columbia. We also support measures to reinforce outreach and psychiatric and employment assistance to veterans among the homeless, but we want those measures to function within the existing and extensive scope of VA benefits rather than drain resources from those entitlements into ancillary and unnecessarily beaurocratic extensions of the VA's responsibilities.

The Veterans' Administration (VA)--through its $27 billion annual budget--provides far-reaching benefits and health care services for our Nation's 28 million veterans. This well-established infrastructure has for many years met the needs of veterans--many of whom are disabled, aged, or poor. In the area of veterans' benefits, the VA provides monthly compensation for those who were disabled in service and to their survivors and dependents. In addition, pensions provide a guaranteed minimum income to wartime veterans who are disabled or 65 years of age or older. The VA also provides educational benefits, job training, vocational rehabilitation and counseling, as well as home loan guarantees to assist veterans in purchasing a home. Through the VA's medical care system--the largest in the United States--the VA provides free hospital, nursing home, and domiciliary care to, among others, those who cannot afford to pay for health care services. Without this vast array of benefits and services, it is obvious that the homeless population would consist of even more veterans.

The fact that the VA has done much to help veterans obtain education, jobs, homes, and health care services does not mean that more cannot be done to address the complex problem of homelessness. Let us keep in mind that mental illness, alcohol and drug abuse problems, and general psychological problems are major factors which contribute to homelessness among veterans. It therefore may be necessary to expand or fine-tune existing programs to address the homeless issue.

Homeless veterans need much more than a roof over their heads. They need medical treatment, counseling, and rehabilitation as well as vocational and job training in order to have the opportunity to lead happy and productive lives. Simply providing unsupervised shelter to the homeless--does not address the many complex problems which they face. Housing homeless veterans--many of whom have chronic mental illness or alcohol and drug abuse problems--in unsupervised residential homes without adequate support services is unwise and inappropriate.

STATEMENT OF
BOB MORAN, ASSOCIATE LEGISLATIVE DIRECTOR
PARALYZED VETERANS OF AMERICA
PRESENTED TO THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING THE
VETERANS ADMINISTRATION'S HOME LOAN GUARANTY PROGRAM
APRIL 22, 1987

Ms. Chairwoman and Members of the Subcommittee, I am Bob Moran, Associate Legislative Director of Paralyzed Veterans of America, and on behalf of the members of Paralyzed Veterans of America, a congressionally chartered veterans' service organization, I want to thank you for affording us the opportunity to present our statement.

Initially, I want to extend PVA's appreciation to you Ms. Chairwoman and the Members of this Subcommittee, for your efforts to improve the effectiveness of the VA's Home Loan Guaranty Program and for allowing PVA the opportunity to work with you and your competent and professional staff in this important endeavor.

The VA's Home Loan Guaranty Program is an entitlement program, wherein every veteran meeting the requirements as provided by statute being eligible for the guaranty of their mortgage. Since its inception in June of 1944, the VA Home Loan Guaranty Program has assisted over 12 million veterans and their families in obtaining suitable, affordable, private housing.

It has been one of the most successful housing programs in this nation's history, and the vast majority of loans guaranteed have cost taxpayers only the minor administrative cost of processing the initial loan. Without a doubt, the VA Home Loan Guaranty Program for 43 years has been a good investment in America, providing stability and expanding the tax base of nearly every community in our country.

PVA would like to comment on a bill introduced by Senator Alan Cranston, S. 477, the proposed "Homeless Veterans' Assistance Act of 1987," which contains numerous provisions for our Nation's homeless veteran population. Most experts today agree that the major causes of homelessness are: deinstitutionalization/mental illness; alcohol and drug abuse; and economic and personal crises, such as loss of employment, divorce and lack of low-cost housing. But, while most experts agree on the causes, almost all disagree on the number of homeless veterans that exist today.

As an example, during a hearing in September 1986, then Representative Tom Daschle, Chairman of the Subcommittee on Education, Training and Employment of the House Committee on Veterans' Affairs, indicated that government statistics show an estimated 250,000 to 350,000 people are homeless, and at least one-third are veterans. In that same hearing the VA representative stated that there are possibly 250,000 to 300,000 homeless veterans.

According to American Legion estimates, 40 percent of our homeless citizens are veterans. Mr. Mitch Snyder, associated with the Community for Creative Non-Violence and a local advocate for our Nation's homeless, stated that more than half of the homeless individuals are veterans. And lastly, the Ranking Minority Member of the Senate Committee on Veterans' Affairs, Senator Frank Murkowski, who on January 29, 1987, during his introduction of an Amendment which provided funding for chronically mentally ill veterans, stated:

> I do not think there are accurate statistics to reflect the actual numbers of homeless veterans. However, estimates range between 250,000 and 3 million homeless veterans.

To the first sentence of Senator Murkowski's statement PVA agrees. Depending on what statistics you use, the Nation's homeless veteran population could range from around 100,000 veterans to over 800,000. With that in mind Ms. Chairwoman, PVA supports the development of a comprehensive study, if the VA or any other agency is to adequately address the true problems, with solutions, for our Nation's homeless veterans.

The Administrator in coordination with the Secretaries of labor, Defense, Health and Human Services, and Housing and Urban Development, should be mandated to submit to the Veterans' Affairs Committees in Congress, a comprehensive report on the extent to which veterans are represented in the population of homeless individuals. Not only should this study include the number of veterans, but as importantly, it must include other critical information, such as period of service; type of discharge; and income, if we are to adequately recognize homeless veterans and their eligibility within the VA's system, or other agencies within society.

In a House Veterans' Affairs Subcommittee hearing held late last year, some interesting and most pertinent information was revealed: 1) the Federal Task Force on the Homeless has identified over 70 federal programs that can be used to help the homeless. 2) This same Task Force in a summary on the Homeless, list under Agency and Program, VA Outreach-479 facilities. 3) The VA currently has approximately 18 programs that are specifically for veterans. 4) As late as December of 1985, over 73 VA facilities reported staff members serving in groups or task forces which were addressing the needs of the homeless in their communities. 5) And lastly, the "National Volunteer Clearinghouse on the Homeless," a project of the Community for

Creative Non-Violence, lists over six thousand shelters in the U.S. for the homeless.

It is PVA's belief that there currently exists programs within various government entities that are assisting our Nation's homeless population, including veterans. And, that with better coordination between the various groups and programs, and a renewed emphasis in outreach, more of our Nation's homeless can and will be served. One such example in regards to outreach, in which PVA has testified before, is the importance of a delay in any transition of the current Vet Center program back into general VA health care facilities. There currently exist within the VA's system, located in communities throughout the U.S., 189 Vet Centers that could possibly be utilized for the outreach of homeless veterans, and by coordinating and facilitating those already existing VA programs, more homeless veterans can and will be helped.

To drastically change a program that has been one of the most successful housing programs is this Nation's history, assisting over 12 million veterans and their families, we believe is unwise. However, PVA does agree that the final amended version of S. 477 makes a legitimate attempt, within the VA's Home Loan Guaranty Program, in assisting the homeless veteran population. We also believe that there currently exist programs within various government entities that are assisting our Nation's homeless population, including veterans, and with better coordination and a renewed emphasis more of our Nation's homeless population will be served.

Ms. Chairwoman, that concludes my statement. Thank you and the Members of the Subcommittee for your extremely deliberate and thoughtful considerations of these issues.

STATEMENT OF

RONNIE J. WYNN

PRESIDENT
COLONIAL MORTGAGE COMPANY
MONTGOMERY, ALABAMA

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

Oversight Hearings on

The Veterans Administration Home Loan Guaranty Program

April 22, 1987

Madam Chairwoman and members of the Subcommittee, my name is Ronnie J. Wynn. I am President of Colonial Mortgage Company located in Montgomery, Alabama. I am also Chairman of the Legislative Committee of the Mortgage Bankers Association of America.* Accompanying me are Burton C. Wood, MBA's Legislative Counsel, and Linda K. Bumbalo, MBA's Associate Legislative Counsel.

MBA appreciates the opportunity to appear before you today to testify on the Veterans Administration (VA) home loan guaranty program and on the legislative agenda of the Subcommittee. This is our first appearance since you have become Chairwoman, Ms. Kaptur, and we would like to offer our congratulations and our appreciation that you have undertaken the leadership of this important Subcommittee. We look forward to working with you and the Subcommittee.

In February 1987, MBA submitted a statement for the record to the Committee on Veterans' Affairs for hearings on the Administration's Fiscal Year 1988 Veterans Administration Budget and urged you to reject the President's proposal to impose a 2.5 percent "user fee," effective June 1, 1987, on the VA home loan guaranty program. MBA applauds the action of this Subcommittee and of the full Committee on Veterans' Affairs in reporting to the House Budget Committee that you are opposed to further fees being imposed on veterans who want to buy a home. The Senate Veterans' Affairs Committee has similarly rejected the proposed 2.5 percent fee.

MBA applauds your introduction of H Con Res 79 on March 16, 1987, and the approval of that legislation by the Subcommittee on March 19, 1987, reaffirming the sense of Congress that the 1 percent fee charged by the Veterans Administration to veterans obtaining a guaranteed home loan should not be increased. MBA also applauds similar action by you and the Subcommittee on H Con Res 78, a resolution expressing Congress' firm support for the goals and objectives of the VA home loan guaranty program and to the veterans and service personnel whom it has served so well.

In October 1986, Congress passed legislation, the "Veterans Benefits Improvement and Health-Care Authorization Act of 1986" (PL 99-576), that included some changes to the home loan guaranty program designed to lessen program losses. MBA had recommended the VA adopt some of these changes administratively in order to adapt the home loan guaranty program to current economic conditions where there is a relatively low rate of inflation in home sales prices. PL 99-576 calls for tighter credit underwriting requirements and working with lenders in establishing uniform qualifications for appraisers doing appraisals for the VA.

MBA will continue to work closely with the Subcommittee and with the VA to ensure that the home loan guaranty program can fulfill its goals and objectives of helping veterans buy homes. MBA supports efforts to improve program management and loan origination procedures. MBA strongly urges an increase in the maximum guaranty amount and would not oppose a temporary extension of the 1 percent funding fee. The sale of assets without recourse should be approached cautiously. Without recourse, the assets would have to be sold at heavy discounts, resulting in losses to the Loan Guaranty Revolving Fund that would have to be made up with appropriations.

The darkest cloud hanging over the home loan guaranty program is the no-bid crisis, which has been exacerbated by delays in the foreclosure process. MBA believes changes should be made that would reduce the number of no-bids that are caused by such delays. In particular, Congress should delegate foreclosure authority to lenders in order to reduce delays, and accrued interest should not be included in the no-bid formula in certain cases where there are delays in the foreclosure process. These include avoidable delays caused by the VA after the lender is in a position to foreclose; unavoidable delays, such as bankruptcy; and delays caused by forbearance.

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA include:

- Mortgage Banking Companies
- Commercial Banks
- Mutual Savings Banks
- Savings and Loan Associations
- Mortgage Insurance Companies
- Life Insurance Companies
- Mortgage Brokers
- Title Companies
- State Housing Agencies
- Investment Bankers
- Real Estate Investment Trusts

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There are additional adjustments that MBA believes should be made to the home loan guaranty program. The VA should be authorized to guarantee adjustable rate mortgages (ARMs) with limits that are identical to the Federal Housing Administration (FHA) ARMs program because both VA and FHA mortgages are put into pools backing Government National Mortgage Association (GNMA) securities. MBA supports free mortgage interest rates that are negotiated between borrower and lender, rather than interest rates that are administratively set. And, with respect to making vendee loans, the Administrator should be as flexible as possible when selling properties acquired by the VA. Finally, MBA believes the specifics of any homeless veterans legislation should be fully explored, particularly with respect to the home loan guaranty program.

With respect to the VA no-bid situation, MBA urges Congress to evaluate the entitlement nature of the VA program and to determine whether the Congress intends that the VA home loan guaranty program should continue as presently structured. The authority for the VA no-bid formula is scheduled to lapse on October 1, 1987. MBA believes that this authority should lapse, if Congress intends the program to continue as an entitlement. At a minimum, if the no-bid formula is extended, the extension should be a temporary one, and changes should be made that would reduce the number of no-bids that are caused by delays in the foreclosure process.

Mortgage bankers are proud of the fact that they have participated in making a program work that has helped 12 million American veterans become homeowners. In fact, it was a little over a month ago that the 12 millionth loan was made by a mortgage banker in Phoenix, Arizona. We appreciate your concern, Madam Chairwoman and members of this Subcommittee, that the program continue to be operated in the most effective way possible.

OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM

The VA home loan guaranty program is an entitlement program established under the Serviceman's Readjustment Act of 1944. The program's purpose is to assist qualified veterans to achieve homeownership. The program provides two primary benefits to qualified veterans. First, the VA guarantees a portion of the veteran's mortgage principal. The amount of this guaranty has varied over the years and is now 60 percent of the loan amount, up to a maximum of $27,500. Because of this guaranty, mortgage lenders are able to provide veteran homebuyers with financing at a lower rate than would be available without the program. The second benefit offered by the program is the stipulation that no downpayment need be required by the lender. A loan with no downpayment is a "100 percent loan" because the loan amount is 100 percent of the value of the property. On an annual basis from 1977 to 1986, between 58 percent and 74 percent of VA-guaranteed loans closed were 100 percent loans. (See Exhibit 1.)

Since the VA initiated its program in 1944, 12 million loans have been guaranteed under the VA home loan guaranty program. The vast majority of those loans have cost taxpayers only the administrative cost of processing the initial approval. The total mortgage amount of the 12 million guaranteed loans over the life of the program is $275.4 billion. Veterans have proven to be good credit risks. Through Fiscal Year 1986, 7.5 million guaranteed loans, totaling $102.7 billion, have been paid in full.

The budgetary mechanism for the loan guaranty program is the Loan Guaranty Revolving Fund (LGRF). The fund was established to balance the income and expenses associated with operating the program. Income for the fund is derived primarily through the sale of "vendee" loans. Vendee loans are direct loans made by the VA to finance the sale of VA-acquired properties. Expenses incurred by the LGRF are predominantly from the acquisition of foreclosed properties securing guaranteed loans.

Historically, when the LGRF was in a deficit position, the VA transferred earnings from its Direct Loan Revolving Fund (DLRF). The DLRF was created in 1950 to make direct loans to veterans who lived in housing credit short areas and could find no private lender to make a VA-guaranteed loan. In these cases, the VA acted as lender, and the interest on the direct loans provided the VA with net earnings in the DLRF.

In 1981, the VA was instructed by the Administration to make no more direct loans except to severely disabled veterans for specially adapted housing. In 1982, the Administration initiated a policy of selling federal assets, which has resulted in the sale of most of the portfolio of direct loans held by the DLRF. Consequently, the role of the DLRF as a source of income for the LGRF has been diminished.

PROGRAM MANAGEMENT

From an historical perspective, the VA home loan guaranty program has worked well, helping millions of veterans become homeowners. Congress, the VA, and the mortgage industry have worked together over the years to address concerns that have arisen in the course of delivering the home loan entitlement program to veterans. As economic conditions change and federal budget restraints increase, program management techniques need to be improved in order to preserve the objectives of the program.

Staff Functions. The home loan guaranty program suffers needless losses because of VA staffing inadequacies. Because the likelihood of increased staffing is remote, MBA believes that available staff resources should be maximized by streamlining the loan processing workload. Performance of some steps in processing loans could be shifted from the VA to lenders. With lenders performing more of the work, the VA staff could be utilized more efficiently by concentrating on those functions that are essential for VA staff to perform. For example, at present, VA field staff must fill out the Loan Guaranty Certificate (LGC) entirely. If lenders who already make the critical underwriting decision on the approval of the veteran would be permitted to perform the clerical process of completing the LGC, it would save VA staff valuable time that could be devoted to more critical functions.

In addition, to deal the requirements of the "Balanced Budget and Deficit Control Act of 1985" (PL 99-177), the Gramm-Rudman-Hollings Act, VA has implemented an elaborate system to track its credit utilization. Under the Loan Authorization Tracking System (LATS), it is necessary for lenders to obtain an authorization number from a VA field station prior to the closing of each loan. This time-consuming requirement is particularly frustrating because VA presently has no credit limitation for FY 1987. As a result, MBA recommends that VA be formally exempted from the sequestration process to eliminate this unnecessary requirement.

EXEMPTION FROM SEQUESTRATION

With the enactment of the Gramm-Rudman-Hollings Act, the parameters of the budget process, as it affects the smooth operation of the VA home loan guaranty program, are not as clear as they have been in the past.

The status of the VA home loan guaranty program should be clarified. Under Section 8 of S 9, the "Service-Disabled Veterans Improvement Act of 1987," benefits under this program would be specifically exempted from any sequestration order, or sequestration law enacted, for any fiscal year after FY 1986. MBA strongly supports this proposal and urges that Congress enact it into law.

ADJUSTABLE RATE MORTGAGES

MBA urges that the VA be authorized to include ARMs in the home loan guaranty program. ARMs have become accepted by borrowers in the conventional mortgage market, and FHA has expanded its insurance program to include ARMs. The conventional and FHA markets have demonstrated that ARMs are beneficial because they permit borrowers and lenders to tailor transactions to the needs of borrowers. Borrowers who do not want to pay for the predictability of a fixed rate mortgage can agree to the lower interest rates that lenders can offer when the borrower bears some of the risk of inflation and other economic conditions that generally cause rates to rise.

MBA believes that VA ARMs should be authorized in a manner that would allow the Administrator to conform VA ARM interest rate adjustments to the FHA ARM program. Currently, FHA is authorized to insure loans with adjustment caps of 1 percent annually and 5 percent over the life of the loan. Because FHA and VA mortgages can be placed in the same GNMA pool when they meet GNMA's pooling requirements, standardization of both VA and FHA ARMs would facilitate greater volume and liquidity in the secondary market.

Whatever may have been the case previously, ARMs are no longer an untested and unknown quantity. Approximately 53 percent of new conventional mortgages originated in the last quarter of 1983 were ARMs. The percentage continued to rise to 62 percent of loans closed in 1984 and dropped back to 50 percent in 1985. (Federal Home Loan Bank Board, "Conventional Home Mortgage Rates," February 1986.) Although substantially lower interest rates restored borrower ability to select fixed rate mortgages in 1985 and 1986, ARMs continue to be a significant borrower option in the conventional and FHA markets.

In 1986, 30 percent of loans closed were ARMs. The percentage of FHA loans that were ARMs increased dramatically from 1985 (the first year FHA-ARMs were permitted) to 1986. (See Exhibit 2.) Veteran borrowers should also enjoy the option.

VA FORECLOSURE CLAIM PRACTICES (NO-BIDS)

The home loan guaranty program is currently exposed to serious trouble through no fault of the VA or the mortgage lending industry. The VA-guaranteed home loan as an entitlement program is in jeopardy because Congress has changed the program, with the ultimate result that it is the veteran who will suffer. The program changes enacted by Congress in 1984 have dramatically increased the number of foreclosed guaranteed loans that result in no-bids. Application of the VA no-bid formula is scheduled to sunset October 1, 1987.

In April 1985, MBA, in testimony before this Subcommittee, stated that if the VA enters a no-bid, in the vast majority of cases the realistic scenario is that the foreclosure will result in the lender, rather than a third-party buyer, taking title to the property. This has proven to be true.

The ramifications of this Congressional action are far-reaching. Congress has shifted the risk of VA-guaranteed home loans to private lenders, leaving them with little choice but to make business decisions to deal with this shift of risk. An informal survey by MBA reveals that 50 percent of our members have already implemented changes to deal with the no-bid crisis. In some cases, lenders have stopped originating VA-guaranteed loans. Some lenders are examining closely the Certificate of Reasonable Value (CRV) and are reducing the value of the property if the CRV is higher than the lender thinks it should be for loan purposes. If the no-bid situation continues to deteriorate, some lenders may require a downpayment on VA home loans. The no-bid problem forces lenders to increase requirements that will make mortgage credit more difficult or impossible for veterans to obtain.

Under the default and foreclosure provisions of the VA home loan guaranty program, the VA has always had the option of either taking title to a foreclosed property and paying the lender the loan amount or leaving the property with the lender and paying the lender only the guaranty amount (a "no-bid"). Although the VA had the authority to exercise the "no-bid" option, prior to August 1984 it did so only in very isolated cases. However, in the "Deficit Reduction Act of 1984" (PL 98-369), Congress included a specific formula that significantly altered VA foreclosure claim practices and forced the VA to enter into more no-bids. This change represented a drastic departure from practices of the previous 35 years of the VA home loan guaranty program during which the VA, in almost 99 percent of the cases, paid the entire loan amount to the lender and acquired the property.

Impact. Foreclosures of VA-guaranteed home loans have more than doubled in the last five years, with most of the increase concentrated in geographic areas of the country that have been devastated by severe economic setbacks (Exhibit 3). With increasing frequency (from 238 cases in 1982 to 5,236 cases in 1986) (Exhibit 4), the VA has been paying the lender only the guaranty amount and leaving the foreclosed property with the lender. Especially in the geographic areas of the country that have been devastated by severe economic setbacks, the property left to the lender has depreciated in value from the time the loan was made, and the lender cannot recover the outstanding debt from the property. The no-bid situation has caused lenders to suffer severe losses. With an average net loss per loan of $16,500, industry-wide losses totalled more than $86 million in 1986.

Implementation of Legislative and Administrative Proposals. MBA encourages Congress and the VA to take another look at the statutory formula for determining no-bids, and to take into consideration the extraordinary plight of both homeowners and lenders in areas of serious economic distress, with a view toward significantly lowering the number of no-bid cases in such areas. If Congress chooses to extend the present formula, that extension should not be permanent and should be for no more than an additional year to continue an assessment of the no-bid formula's impact on the VA program.

The formula the VA uses to determine whether to acquire a property or to pay the guaranty is structured so that delays in the foreclosure process almost inevitably lead to no-bids. The veteran's total indebtedness increases when a foreclosure sale is delayed, because interest continues to accrue. This additional debt can tip the scale and create a no-bid.

Even though there seems to be no definitive solution to the VA no-bid problem, nevertheless, some action is required. Changes in underwriting, appraisal, and servicing procedures will improve the quality of the VA loans. Legislation enacted in 1986 makes strides towards such improvements.

If Congress extends the VA no-bid formula, it should seriously consider changes that would lessen the harsh treatment of lenders, particularly in economically depressed areas, under the current formula.

Last fall, MBA formed a special VA Subcommittee to review the current no-bid situation and to formulate recommendations to remedy the problem. As a result of the discussions held by the special Subcommittee, MBA has adopted the following recommendations that would help alleviate the no-bid problem.

The Formula. The statutory formula contained in 38 USC 1816, which is used to calculate whether a VA foreclosed loan results in a no-bid, is as follows. If the the veteran's total indebtedness exceeds the net value of the house (appraised value reduced by VA administrative costs equal to 10.5 percent of the loan) and that excess debt is more than the guaranty amount, the VA pays the lender the guaranty amount and does not acquire the property. The veteran's total indebtedness includes the unpaid principal plus the interest that has accrued on the loan as of the liquidation sale, or such earlier date following the expiration of a reasonable period for the sale to occur as the Administrator may specify. This provision should be clarified so that the amount of accrued interest due to delays in the foreclosure process does not increase the veteran's total indebtedness and in some cases turn the foreclosure into a no-bid.

Accrual of Interest. MBA urges several changes that would decrease the number of no-bids that occur solely as a result of interest accrued during the period that a loan is in default before the liquidation sale.

First, accrual of interest for purposes of the no-bid calculation should cease when the lender is ready, willing, and able to foreclose. However, such interest should be reimbursed by the VA as part of the lender's claim if the VA acquires the property. Costs of avoidable delays in foreclosing loans would be borne by the VA in cases where the VA is responsible for postponing the expeditious completion of foreclosure.

Second, in cases where a foreclosure is delayed due to circumstances beyond the control of both the lender and the VA, such as bankruptcy, lenders should have the option to request that the VA cease accruing interest for purposes of the no-bid calculation. In return, lenders would forfeit the right to be reimbursed for such interest if the VA acquires the property. Lenders would continue to be responsible for the cost of unavoidable delays due to bankruptcies and lengthy foreclosure statutes. However, in exchange for forfeiting a portion of the interest, lenders could avoid acquiring the property.

Third, interest that accrues during a period of forbearance by a lender should not be used in the no-bid calculation, but should be reimbursed by the VA as part of the lender's claim if the VA acquires the property. The VA frequently asks lenders to forbear when a loan goes into default, but the additional interest costs accrued during the forbearance period are not reimbursed by the VA. Since the VA requests forbearance, the VA should pay for the delay if the case turns into a foreclosure. Without such a policy, lenders will be more reluctant to forbear because of the potential of significant losses.

Foreclosure Authority. MBA urges Congressional action that would enable additional authority for VA foreclosures to be delegated to lenders. This would involve granting lenders the authority to (1) process the pre-foreclosure appraisal, (2) make the calculation necessary to determine whether the VA should acquire the property or pay the guaranty, and (3) determine the appropriate bidding instructions at the foreclosure sale.

Delays in issuing timely foreclosure bidding instructions, due to inadequate VA staffing, often turn potential VA acquisitions into VA no-bids because of the additional interest accrual and hurt everyone. Interest continues to accrue during the period of the delay. This costs the mortgage banker, who must continue to advance funds to investors. It costs the VA if they acquire the property, and it adds to the debt owed by the veteran who has defaulted, where VA seeks indemnification. The delegation of foreclosure authority to lenders would reduce these delays, without increasing costs to the federal government. Existing VA staff could be dedicated to monitoring and auditing lender performance to assure integrity of the system.

Timely Payment of VA Foreclosure Claims and Guaranty Amounts. The delays that hinder the issuance of foreclosure bidding instructions by the VA also extend to paying lenders the claim or guaranty amounts. As mentioned earlier, VA has the option of taking title to the property and paying the lender the claim amount or leaving the property with the lender and paying the guaranty amount.

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Regardless of the option exercised, VA's performance in paying the lender has been very poor, particularly in high foreclosure volume areas. Delays of up to six months or more cause significant and unnecessary expense to the lending industry.

Following a foreclosure, the lender must advance its own funds to pay off the investor in the GNMA pool. Lenders whose portfolios are concentrated in economically depressed markets have millions of dollars of corporate funds tied up in VA foreclosures. It is vital that VA pay lenders the claim or guaranty funds in a more timely fashion. If adequate VA staff cannot be allocated to perform this function, then the payment process should be streamlined. In 1985, the FHA implemented a streamlined system for paying claims on FHA-insured mortgages that has reduced the number of HUD staff needed for this function and has drastically improved the speed with which lenders are paid.

MBA believes that these changes to the loan guaranty program are reasonable and will improve the home loan guaranty program. If lenders are forced to bear increasingly greater amounts of risk and losses, they will be forced, unfortunately, to discontinue originating VA loans or to make drastic changes in their underwriting procedures. The ultimate result is an increase in the cost of mortgage credit to veteran borrowers.

PROPERTY MANAGEMENT AND SALES

There are several widely espoused recommendations to improve VA's performance in selling VA-acquired properties. These recommendations include listing properties in a more timely manner in order to eliminate any lag between the time the properties become available and the time buyers become aware that these properties are on the market. In addition, there should be more outreach efforts to real estate agents to maximize exposure for VA-acquired properties. Improved communications between real estate agents and VA staff could lead to greater real estate agent knowledge about the properties. Property descriptions and details such as those used for private listings would greatly accelerate real estate agent showings of the property because of the time saved by the agent in not having to check out the property from merely an address listing. Finally, there should be further examination of the auction method for selling properties.

FURTHER STUDY

MBA has formed a task force that will be meeting in May 1987 to study the home loan guaranty program. Further recommendations for program improvement may be a result of the task force efforts.

HOMELESS VETERANS

Because it is the Subcommittee's intention to explore the issue of homeless veterans, MBA would like to offer its comments on current legislative efforts to address the problem. MBA supports the concept of providing shelter for homeless veterans and thinks the goal of S 477, the "Homeless Veterans Assistance Act of 1987," is a worthy one. It is unconscionable that any Americans, but particularly men and women who have served this country in the armed services, should go without shelter.

The proposal to use VA-acquired properties for housing the homeless veterans deserves a full exploration. As a new concept, MBA urges that the specifics of any legislative measure be examined thoroughly, particularly with respect to the impact on the home loan guaranty program. As the committee is well aware, the loan guaranty program has come under attack in recent years. The Loan Guaranty Revolving Fund (LGRF) has required appropriations because its losses are no longer covered by revenues from VA direct loans. Congress should look very carefully at whether the transfer of VA properties will exacerbate the losses to the LGRF.

As passed by the Senate on March 31, S 477 would authorize the VA to sell to appropriate organizations properties acquired by the VA because of foreclosures of guaranteed loans. This represents a change from the bill as introduced and as reported out of the Senate Veterans Affairs Committee, which would have permitted the transfer of properties at nominal or no cost. As amended, under S 477, the Administrator would determine whether the sale price for the property would be in the best interests of the federal government, the VA home loan guaranty program, and the solvency of the LGRF, and which would not be disadvantageous to the veteran in default. This language appears to provide greater safeguards for the home loan guaranty program by maximizing the market potential of the VA-acquired properties. MBA believes these properties should be sold at fair market value, as far as practicable.

MBA believes that appropriate inventory to be used are those properties that are determined to be hard to sell. It is MBA's understanding that the VA has an inventory of

21,000 properties. Determination of which of these properties are hard to sell should be closely regulated. It is very likely that the hardest-to-sell properties are those owned by lenders because of a no-bid by the VA in a foreclosure sale of a property securing a VA-guaranteed home loan. The VA should rethink its no-bid policy in cases where properties, instead of winding up in the hands of lenders, could be available for homeless veterans in areas where the need for shelter is greatest.

We would be pleased to work with the Subcommittee, as well as with the VA, to help ensure that any program adopted be as efficient as possible.

LEGISLATIVE AGENDA

In your letter requesting that MBA testify at this hearing, you asked us to address a number of items on the Subcommittee's agenda. MBA would like to offer the following comments on the proposed legislative agenda.

UNDERWRITING ON ASSUMPTIONS

MBA recommends that underwriting of all purchasers assuming VA loans be mandatory for all assumptions that occur in the first year of the mortgage.

MBA believes that this action is necessary to address abuses that have been uncovered involving assumptions that occur shortly after loan closing. However, MBA does not believe that it is appropriate to require underwriting in all assumption transactions. We are unaware of any documented abuses that would justify the delay and expense associated with an underwriting review of all loans.

EXTENSION OF THE FUNDING FEE

The second proposal on the agenda is to extend the 1 percent funding fee for three years. It expires at the end of FY 1987. If the temporary funding fee is extended, it should not be made permanent. A three-year extension would give Congress the opportunity to review the home loan guaranty program and decide whether it wishes to continue the program as an entitlement.

The VA home loan guaranty program has always been an entitlement program. When Congress created the VA home loan guaranty program in 1944 to assist veterans returning from World War II to buy a home, Congress did not design it or intend it to be supported by user fees. The program was a recognition by a grateful nation that the men and women who had forgone civilian life to defend the vital interests of the country should be aided in achieving homeownership. The program was partial payment for services performed.

In subsequent years, the program became a commitment to young persons who entered military service to protect the vital interests of the nation in Korea, Vietnam, and elsewhere. That commitment has been reviewed from time to time, and Congress has always determined to renew it, the latest review being only a few months ago.

From the beginning, there was a realization that the program would need appropriations, and appropriations have been made in several fiscal years during the operation of the program. In 1984, Congress was faced with the fact that the economic cycle and certain changes in other VA operations precluded the VA from funding the home loan guaranty program from internal VA sources, and that appropriations would be required to continue the program.

At that time, Congress considered whether to renew its commitment to qualified veterans, especially the Vietnam veterans who are now reaching the point in their lives when they are ready to buy a home. The requested authorization and appropriations were granted; the VA was directed to administer the program in certain ways to reduce costs; and a 1 percent temporary funding fee was established, but scheduled to expire September 30, 1987.

Given the President's Budget proposals for FY 1988, Congress should reexamine whether the purpose of the VA home loan guaranty program is the same now as it has been for more than 40 years. The program was never designed to be actuarially sound, but to guarantee a mortgage loan to any qualified veteran, with no downpayment required. From the time the VA initiated its home loan guaranty program in 1944 until March 1987, 12 million loans had been guaranteed. The vast majority of those loans have cost taxpayers only the administrative costs of processing the initial approval.

INCREASE IN MAXIMUM GUARANTY

MBA supports an increase in the maximum guaranty. The proposal included in S 9, the "Service-Disabled Veterans Improvement Act of 1987," would increase the maximum amount from $27,500 to $36,000. Such an increase would bring the relationship between the level of the guaranty amount and the ever-increasing cost of new and existing housing closer to historical ratios. The VA guaranty has not been raised since 1980.

Lenders ordinarily lend up to four times the guaranty amount, or up to $110,000, with no downpayment. In many areas, the applicable maximum allowable mortgage amount for VA does not reflect the realities of the housing marketplace. In those areas where the maximum amount is insufficient, homebuyers who might rely on the no-downpayment VA home loan program are deprived of this available financing vehicle. And, in many instances, these homebuyers have no other alternative sources of credit.

From 1974 to 1986, the median price of new single-family homes jumped from $35,900 to $92,000, an increase of 156.3 percent. Had the VA maximum guaranty been adjusted annually in equal proportion to the increase in new home prices, the 1986 guaranty would have reached $44,847 (Exhibit 5).

During the same period, the median price of existing single-family homes increased over 150.9 percent, from $32,000 in 1974 to $80,300 in 1986. Adjusting the VA maximum guaranty for annual increases in existing home prices for this period would have resulted in a maximum guaranty of $43,914 in 1986 (Exhibit 5).

DOWNPAYMENT ON MANUFACTURED HOMES

The fourth item on the agenda is a proposal to require a downpayment on manufactured homes. MBA believes that the underwriting criteria (appraisal and mortgage credit practices) required for other home loans guaranteed by the VA should be used for these manufactured homes. The foreclosure rate on manufactured homes subject to the $20,000 limit currently is dramatically higher than on other home loans. The problem appears not to be lack of equity in the property, i.e., no downpayment, but rather poor appraisal practices. Loans on these homes are based on a value established by an invoice rather than by an appraisal. Tighter underwriting would improve the quality of these loans.

REFINANCING OF VA LOANS BY TRANSFERRED VETERANS

The final legislative item is to permit refinancings of VA loans by veterans who have been transferred. Currently, a veteran has to meet certain residency requirements in order to refinance a high-interest rate VA-guaranteed loan with the VA. However, if the residency requirement is not met, the veteran is not precluded from keeping the high-interest rate VA loan, even if the property is being rented during the transfer period. Given that the transferred veteran is not blocked from renting the property under the original loan, it seems reasonable to permit that same veteran to refinance the loan without meeting the residency requirements.

One of the advantages of allowing refinancings is that a loan at a lower interest rate would be a less risky loan because debt service would be reduced. In addition, the veteran would have to pay the 1 percent funding fee at the time of refinancing, which would bring in increased revenues to the VA.

BUDGETARY ITEMS

In addition to the Legislative Agenda, you requested MBA's comments on several budgetary items.

SALES OF LOANS WITHOUT RECOURSE

MBA opposes the proposal in the Administration's 1988 Budget (Appendix, page I-Y16) to have the VA sell vendee loans in all cases without recourse. The sale of vendee loans without recourse shifts the credit risk of default from the VA to the private investors, who necessarily adjust their purchase prices accordingly. The General Accounting Office concluded in a September 1986 report, LOAN ASSET SALES: OMB Policies Will Result in Program Objectives Not Being Fully Achieved, that the sale of loan assets without recourse would preclude the government from taking advantage of existing secondary credit markets and from maximizing proceeds from loan sales. It can be expected that the reduction in the sales price paid to the Government by private industry buyers of vendee loans without recourse will be greater than the deficit savings the Government might realize by transferring the risk of default. The assets would have to be sold at deep discounts, resulting in losses to the LGRF that would have to be replaced with appropriations.

It is important to note that vendee loans sold with recourse can be put into mortgage pools backing GNMA securities. If these loans are sold without recourse, these mortgages could not be placed in GNMA pools. This means the loans would be sold at outrageously low prices or not at all.

SALE OF LOAN PORTFOLIO

The vast majority of the VA's direct loans have already been sold, and it effectively no longer makes new ones. Vendee loans to finance the sale of VA-acquired properties are sold on a regular basis and as soon as practicable. The $900 million portfolio that would be sold consists of assets that have limited resale value. They include loans with very low interest rates, loans secured by property with title problems, and delinquent loans. MBA believes that the VA should maximize its return on these assets by prudent management. The VA should determine whether the sale price for these assets would be so low as to preclude any deficit savings.

QUOTAS FOR VENDEE LOANS

In the "Deficit Reduction Act of 1984" (PL 98-369), limitations for vendee loans were set for the VA in order to minimize the number of vendee loans to the greatest extent consistent with maintaining the effective functioning of the VA home loan guaranty program. At least 60 percent of the purchases by private buyers of property acquired by the VA are required to be financed by the VA, with the maximum set at 75 percent. The President's FY 1988 Budget proposes to reduce this limitation on the number of vendee loans to between 40 and 60 percent of such sales. MBA urges that the quota concept be removed, and that the VA be allowed to use guaranteed vendee loans as fully as it deems economically advantageous in selling property acquired in the home loan guaranty program.

The intent of our recommendation is that a VA determination to make a vendee loan should not be based on an arbitrary quota, but rather on a case-by-case basis. If Congress eliminates statutory quotas, it should make it clear that the VA should use vendee loans as fully as it deems necessary to facilitate the sale of VA-acquired properties. The VA should have as much flexibility as possible in the use of vendee loans. Most vendee loans are made on foreclosed properties in economically depressed areas of the country where, because of market forces, private lenders are reluctant to provide financing without a downpayment. Because the VA field office can adjust the downpayment requirement on a vendee loan to what the market will bear, the likelihood exists that the property will be sold more quickly with a vendee loan.

FREE VA INTEREST RATE

MBA supports legislation that would free VA loans from any interest rate controls, including the regulation of either interest rates or discount points. Under current law, the maximum interest rates on VA loans are set by the VA Administrator. These rates, however, historically have not accurately reflected the market rate for mortgages. If the maximum VA interest rate is too low, then home sellers often must pay substantial discount points to raise the yield on the mortgage to the level set by forces of supply and demand in the secondary mortgage market. Analysis suggests that a major portion of these discount points are effectively paid by the buyer in the form of a higher price for the property.

Since 1983, the interest rates on FHA-insured mortgage loans have been determined by the market. The VA home loan guaranty program is put at a disadvantage if the VA does not track the market closely. Sellers may refuse VA financing as an alternative because of the spectre of their having to pay substantial discount points if the VA sets its rate too low. Furthermore, to take advantage of the GNMA MBS program, lenders may have to place VA and FHA loans in separate pools if their interest rates are more than 1 percent apart. Although VA has been quite responsive to market forces over the past several years in making interest rate changes, a free rate would ensure the most efficient operation with the secondary market and minimize disruptions in the availability of mortgage credit to veterans.

MBA appreciates the opportunity to testify before this Subcommittee and would be happy to answer or provide additional information, as necessary, for inclusion in the record.

EXHIBIT 1

VA HOME LOAN GUARANTY PROGRAM ACTIVITY
PRIMARY HOME LOANS CLOSED

Total [1]

	Number	Loan Amount ($Mil)	Average Loan Amount	Average Purchase Price	Avg. Loan to Value Ratio
1977	371,610	13,260	$35,683	$36,982	96.5
1978	352,797	13,959	$39,567	$41,079	96.3
1979	345,708	15,991	$46,256	$48,555	95.3
1980	255,631	13,257	$51,860	$55,092	94.1
1981	136,027	7,543	$55,452	$58,833	94.3
1982	87,027	5,053	$58,062	$63,112	92.0
1983	227,155	14,092	$62,037	$66,723	93.0
1984	181,771	11,633	$63,998	$67,584	94.7
1985	172,773	11,579	$67,016	$70,243	95.4
1986	207,651	14,510	$69,875	$72,905	95.8

[1] Loans for refinancing not included.

100% Loans

	Number	Percent of Total Number	Loan Amount ($Mil)	Average Loan Amount
1977	259,509	69.83	8,817	$33,975
1978	244,458	69.29	9,091	$37,188
1979	234,810	67.92	10,260	$43,695
1980	169,839	66.44	8,195	$48,254
1981	89,758	65.99	4,569	$50,901
1982	50,285	57.78	2,629	$52,284
1983	137,315	60.45	7,868	$57,299
1984	118,218	65.04	7,042	$59,564
1985	123,101	71.25	7,846	$63,736
1986	153,232	73.79	10,129	$66,104

Source: Program Management Service, Loan Guaranty Department of the Veterans Administration.

Prepared by Mortgage Bankers Association of America, Economics Department, April 1987.

EXHIBIT 2

ARMs AS A PROPORTION OF LOANS CLOSED

	Conventional[1]	FHA[2]
1986	29.9%	0.8%
1985	50.5%	0.1%
1984	62.0%	—
1983	40.3%	—
1982	40.5%	—

[1] Source: Federal Home Loan Bank Board

[2] Source: Federal Housing Administration — Fiscal Year Basis

Prepared by the Mortgage Bankers Association of America, Economics Department, April 1987.

EXHIBIT 3

TOP 10 STATES BY NUMBER OF NO-BIDS

	FY 1985			FY 1986		
State	No. of Foreclosures	No. of No-Bids	Pct.	No. of Foreclosures	No. of No-Bids	Pct.
1. Texas	4,136	258	6	7,338	1,206	16
2. California	2,775	490	18	2,617	563	22
3. Ohio	2,156	366	17	1,977	378	19
4. Colorado	1,459	146	10	1,932	363	19
5. Illinois	1,685	236	14	2,090	339	16
6. Oklahoma	734	95	13	1,426	308	22
7. Indiana	854	128	15	881	182	21
8. Pennsylvania	876	184	21	825	176	21
9. Iowa	415	91	22	417	168	40
10. Washington	1,182	130	11	1,283	165	13

Source: Veterans Administration

Prepared by Mortgage Bankers Association of America, April 1987.

EXHIBIT 4

VA NO-BIDS AND FORECLOSED LOANS

Fiscal Year Ending	Loans Foreclosed	Number of No-Bids	Number of No-Bids As Percentage of Total Foreclosed
1981	12,490	358	2.87
1982	15,427	238	1.54
1983	21,176	689	3.25
1984	23,377	1,496	6.40
1985	27,276	3,055	11.20
1986	34,642	5,236	15.00

Source: Veterans Administration

Prepared by the Mortgage Bankers Association of America, April 1987

EXHIBIT 5

ADJUSTMENT OF MAXIMUM GUARANTY

	Maximum VA Guaranty		Median Sales Prices					
			Existing Homes		New Homes 1/		All Homes 2/	
	Amount	% Change From 1974	Price	% Change From 1974	Price	% Change From 1974	Price	% Change From 1974
1974	$17,500	NA	$32,000	NA	$35,900	NA	$32,725	NA
1975	$17,500	0.0	$35,300	10.3	$39,300	9.5	$36,026	10.1
1976	$17,500	0.0	$38,100	19.1	$44,200	23.1	$39,162	19.7
1977	$17,500	0.0	$42,900	34.1	$48,800	35.9	$43,981	34.4
1978	$25,000	42.9	$48,700	52.2	$55,700	55.2	$49,891	52.5
1979	$25,000	42.9	$55,700	74.1	$62,900	75.2	$56,825	73.6
1980	$27,500	57.1	$62,200	94.4	$64,600	79.9	$62,572	91.2
1981	$27,500	57.1	$66,400	107.5	$68,900	91.9	$66,782	104.1
1982	$27,500	57.1	$67,800	111.9	$69,300	93.0	$68,057	108.0
1983	$27,500	57.1	$70,300	119.7	$75,300	109.7	$71,232	117.7
1984	$27,500	57.1	$72,400	126.3	$79,900	122.6	$73,767	125.4
1985	$27,500	57.1	$75,500	135.9	$84,300	134.8	$77,052	135.5
1986	$27,500	57.1	$80,300	150.9	$92,000	156.3	$82,318	151.5

	Maximum VA Guaranty	Price Adjusted VA Guaranty			RATIO: Price Adjusted Guaranty to Actual Guaranty		
		For Existing Homes	For New 1/ Homes	For All 2/ Homes	For Existing Homes	For New 1/ Homes	For All 2/ Homes
1974	$17,500	$17,500	$17,500	$17,500	1.00	1.00	1.00
1975	$17,500	$19,305	$19,157	$19,265	1.10	1.09	1.10
1976	$17,500	$20,836	$21,546	$20,942	1.19	1.23	1.20
1977	$17,500	$23,461	$23,788	$23,519	1.34	1.36	1.34
1978	$25,000	$26,633	$27,152	$26,679	1.07	1.09	1.07
1979	$25,000	$30,461	$30,662	$30,388	1.22	1.23	1.22
1980	$27,500	$34,016	$31,490	$33,461	1.24	1.15	1.22
1981	$27,500	$36,313	$33,586	$35,712	1.32	1.22	1.30
1982	$27,500	$37,078	$33,781	$36,394	1.35	1.23	1.32
1983	$27,500	$38,445	$36,706	$38,092	1.40	1.33	1.39
1984	$27,500	$39,594	$38,948	$39,447	1.44	1.42	1.43
1985	$27,500	$41,289	$41,093	$41,204	1.50	1.49	1.50
1986	$27,500	$43,914	$44,847	$44,020	1.60	1.63	1.60

Sources: Bureau of the Census; National Association of Realtors.

1/New home sales prices and activity for 1986 estimated based on data through November 1986.

2/Weighted average (by sales activity) of median sales prices of new and existing single-family homes sold.

Prepared by the Mortgage Bankers Association of America, Economics Department, April 1987.

STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS
before the
COMMITTEE ON VETERANS AFFAIRS
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
on
THE VA HOME LOAN GUARANTY PROGRAM
April 22, 1987

Madam Chair and Members of the Subcommittee:

My name is Shirley McVay Wiseman and I am Vice President and Treasurer of the 145,000 member National Association of Home Builders. I am a single family home builder from Lexington, Kentucky. I have been active in the home building industry for more than 20 years and am familiar with both FHA and VA housing programs both as a builder and when I served as HUD's Deputy Assistant Secretary/Federal Housing Commissioner. NAHB is a trade association of the nation's homebuilding industry with almost 20% of our builder members involved in building housing financed under the Veterans Administration (VA) housing programs. According to NAHB's "Profile of the New Home Buyer" the VA Home Loan Guaranty Program was used by 14.5% of new single family home buyers in 1986. (Attachment A).

I am pleased to present our views on the VA Home Loan Guaranty Program. First, I would like to welcome you as the new Chair of the Subcommittee and to thank you for your long record of achievement in the housing area. We are pleased with the Committee action in rejecting the Administration's FY'88 budget proposals, in your recommendations to the Budget Committee, including the increase in the VA user fee and the elimination of the administratively set VA interest rate. Madam Chair, I would also like to express our support for your legislation, H.Con.Res. 78 and 79, which commends the VA for their outstanding service to veterans and rejects the VA fee increase. We would also like to comment on your proposed legislative agenda including an increase in the VA loan guaranty maximum and the consideration of a downpayment on VA mobile/manufactured homes. Additionally, we hope that you will provide for an adjustable rate mortgage (ARM) and a mortgage ceiling exemption from sequestration provisions of the Deficit Reduction Act.

VA HOME LOAN GUARANTY PROGRAM

I would like to take this opportunity to comment on the Veterans Administration Home Loan Guaranty Program in general. VA housing programs have served veterans and their families for over four decades. They have given veterans the chance to achieve homeownership with all of the opportunities that come from putting down roots and establishing community ties. We support H.Con.Res. 78 commending the VA for its service to veterans as they guaranteed their 12 millionth loan. Our Vice President and Secretary represented NAHB at the ceremonial closing of this loan in Phoenix, Arizona on March 6. More than $275 billion in loans have been made since 1944 to help veterans obtain homeownership.

Congress spoke very clearly in 1944 when authorizing the GI Home Loan Program as an entitlement program to enable veterans to obtain mortgage credit. Over time, Congress has acted wisely to increase the entitlement, expand the category of eligible veterans, and extend the period during which the entitlement could be utilized. There has been a bipartisan commitment over the years to help veterans purchase their own homes.

The VA has done an excellent job in carrying out the housing entitlement programs afforded veterans. NAHB has consistently supported the VA Home Loan Guaranty Program and believes the VA to be one of the best federal agencies in terms of service to the consumer and the home builder.

ADMINISTRATION'S FY'88 BUDGET PROPOSALS

VA User Fee Increase

Legislation was introduced for the Administration on April 8, (H.R. 1998) calling for an increase in the VA user fee from 1% to 2.5% effective June 1, 1987. We appreciate your introduction of H.Con.Res. 79 and hope Congress will reject the fee increase.

Impact of GNMA on VA

NAHB views the VA fee, as well as the user fee increase proposed for the Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA), as part of a continuing effort by the Administration to restrict essential federal credit programs. We oppose these fees because they would increase the cost of mortgage credit to homebuyers. We are pleased that legislation was recently signed into law which prohibits the proposed increase in the GNMA guaranty fee from 6 to 10 basis points, an increase which would not only raise the cost to VA homebuyers but would reduce incentives for lenders to service VA loans.

The impact of the proposed changes to the GNMA program on the VA home loan guaranty program is substantial, since VA loans comprise one-third of the collateral of GNMA securities. In addition, almost all of the VA loans which are originated are securitized by GNMA.

Impact of the Fee on Veteran Mortgage Payments

The impact on the homebuying veteran of raising the VA loan guaranty fee to 2.5% would be substantial. Assuming a veteran takes out a loan for $70,000 (the average loan amount for a VA home at the end of 1986) at 9.5% for 30 years, he would have an up-front cash payment of $700 with the 1% fee. If the fee is increased to 2.5%, the up-front cash payment increases by $1,050, bringing the total to $1750. Many veterans would not be able to raise that much cash at the time they planned to purchase a home. If the loan fee is financed over 30 years, the veteran could pay an extra $3200 due to the fee increase.

The Increased Fee Will Cause Losses to the Fund

We anticipate that the increased fee will cause loan originations to decrease as veterans decline to use the program. This will offset projected revenue to the fund. The Congressional Budget Office has estimated that for each 1% increase in the VA fee, new loan originations would decrease by approximately 5%.

We are equally concerned about the impact upon the borrower's equity if the fee is financed up front. We are currently in a period of low home price inflation, which when combined with reduced equity positions can lead to a higher incidence of default and foreclosure. This effect could offset part or all of the estimated benefit of the increased fee.

Existing One Percent Fee

The current 1% funding fee, which was extended by Congress in 1984 for three years, will expire on September 30, 1987. Even with the existing 1% loan fee, the Loan Guaranty Revolving Fund may need to be supplemented by an appropriation by the Congress in FY'88.

While we support a congressional appropriation if needed to maintain solvency in the program, we recognize the critical need to maintain current revenue. Therefore we recommend that the committee retain the current 1% fee for another year to help sustain the program. We urge Congress, however, to give serious consideration to the issue of whether the program is truly an entitlement for which user fees may be inappropriate.

Negotiated Rate

Madam Chair, the Administration's legislative request for FY'88 (H.R. 1998) seeks authority for negotiated interest rates on VA guaranteed mortgages. This would eliminate the administratively set VA interest rate and allow for a negotiated rate between the buyer and the lender.

Recent NAHB policy supports the continued use of the administratively established VA rate. (Attachment B) NAHB has always endorsed the VA's ability to set the program interest rate in order to protect the interests of the veteran and the guaranty fund.

Furthermore, because of its sensitivity to market conditions the VA prevailing rate has become an important national benchmark for mortgage interest rates. If the VA's authority to set a maximum interest rate ceiling were eliminated, the credit markets would lose this stable measure of the cost of mortgage credit, a feature which becomes even more important in our currently volatile interest rate environment.

Asset Sales

We are concerned with the Administration's policy decision to sell the loan assets of the VA and other federal agencies. Our concern has to do with the overall impact of the proposal upon the long term economic health of the various programs. In deciding which assets to sell, careful consideration must be given to assessing the true value of the income stream of the asset being sold. The Administration's FY'88 budget proposes to sell $900 million of the Veterans Administration's $1.1 billion loan portfolio over the next three years without recourse, at a 30% discount. It is estimated that this will result in a loss of $100 million in interest income. The loss of this income stream from the properties being sold must be balanced against projected short term budgetary gains in determining actual "value" of the asset sale and long term implications and loss to the program.

LEGISLATIVE PROPOSALS

Madam Chair, I appreciate this opportunity to comment on your proposed legislative agenda. We have already expressed our views on continuation of the 1% loan origination fee and strongly urge that the loan guaranty maximum be increased since home prices have substantially increased. Recent NAHB policy supports these provisions (Attachment B).

In further response to your proposed legislative agenda we recommend that a downpayment be required for mobile homes and that transferred veterans be allowed to refinance their homes before sale even though they will no longer be owner occupants as required by law.

We also hope that the Committee will exempt the loan ceiling from sequestration provisions of the deficit reduction act as it is very important to maintain an uninterrupted flow of funds to the program. In addition we want to reiterate our interest to you in having an adjustable rate mortgage added as a financing mechanism for veteran home buyers.

Loan Guaranty Maximum

Attachment C to my testimony shows the need to increase the loan guaranty maximum. Since 1976, the sales price of new single family homes has increased at a much greater rate than the maximum loan guaranty. The average sales price of a new home went from $48,000 in 1976 to $111,800 in 1986, a 133% increase. The loan guaranty maximum increased only 57% in the same amount of time -- from $17,500 to $27,500. Comparing the 1986 new home sales price of $111,800 to the 1980 figure of $76,000, the last time the loan guaranty was raised, new home prices have increased 46%.

Given the substantial increases in the cost of housing since the last time the loan guaranty maximum was raised, we believe that an increase in the loan guaranty amount from $27,500 to $36,000 as recommended in our policy is well justified. The rise in home prices of 46% would actually support an increase in the loan guaranty to over $40,000.

You may want to consider the establishment of a mechanism that would automatically trigger an increase in the loan guaranty maximum as home prices rise. We would also support a formula to provide differentials for high cost housing areas, similar to FHA. The present system is especially unfair to areas or states with high housing costs including California, Hawaii, and Alaska. In a relatively low cost area a majority of the market may be eligible, but in a high cost area, because of the loan guaranty maximum limit, a smaller portion of the market will be served.

Mobile/Manufactured Homes/Downpayment

We are concerned about serious problems arising in the mobile/manufactured home loan area. The Government National Mortgage Association (GNMA) which guarantees principal and interest on securities backed by both FHA and VA loans has experienced rising issuer default in its mobile/manufactured home mortgage backed security program. About 65% of the loans in manufactured home securities guaranteed by GNMA are FHA and the remaining 35% are VA. These issuer defaults have left GNMA holding $900 million of mobile home mortgages out of the $3.1 billion outstanding loans in GNMA-guaranteed securities. The agency estimates these defaulted portfolios will produce losses of $38 million to $45 million over the next five years. The delinquency rate on the mobile/manufactured homes in the portfolios taken over by GNMA is 21%, including foreclosures of 10%.

The VA experience shows a 17% delinquency rate for mobile/manufactured homes in 1986. Claims from lender foreclosures represent 6% of outstanding loans in 1986. Additionally, mobile homes do not appreciate in value and do not have the same durability or energy efficiency of stick built or other manufactured homes. Because of these reasons we recommend that a downpayment be required on mobile homes to counter the high risk and losses which could occur in the Loan Guaranty Revolving Fund and the VA Home Loan Guaranty Program.

Transferred Veterans Refinancing/Assumed Loans

We recommend that veterans who have been transferred be allowed to refinance their loans before sale. Current law states that veterans must be owner occupants to refinance their homes -- a provision which excludes transferred veterans attempting to sell their homes. A new buyer does not want to assume a 12% to 14% interest rate loan which was prevalent under the program in the early 1980's, when he can obtain a much lower interest rate elsewhere.

Letting a veteran refinance the loan at the current 9.5% interest rate will be beneficial both to the veteran and the homebuyer. It will allow veterans to sell homes which have been sitting on the market, thereby preventing default and foreclosure. The new buyer will save both in the amount of upfront closing costs and in shorter processing time.

Loan Ceiling Exemption

For the first time in the history of the program, a ceiling was placed on the overall number of loans that could be made by the Veterans Administration under the sequestration provisions of the Deficit Reduction Act. In 1986, Congress had to increase the loan guaranty ceiling twice because of this legislation, causing severe disruptions in the program. This came at a time when interest rates had substantially declined, allowing thousands of veterans to purchase homes for the first time. Refinancings were also at an all time high.

The loan guaranty program is an entitlement program and should not be impacted by the Gramm/Rudman/Hollings deficit reduction provisions. In addition, VA home loan guarantees require no direct federal outlays unless there is an actual default of the loan. A reduction in the number of loans will not result in deficit savings.

Adjustable Rate Mortgages

Madam Chair, you asked for our recommendations for innovations in the home loan guaranty program. Provisions for an adjustable rate mortgage would be helpful to better serve the veteran homebuyer. Recent NAHB policy supports an adjustable rate mortgage (ARM) which allows the lender to make periodic adjustments in the effective rate of interest on a VA home loan based on a national rate index. Our policy calls for an ARM identical to FHA's adjustable rate loan which allows interest rates to escalate no more than 1% per year with a cap of 5% over the life of the loan. (Attachment D)

Adjustable rate mortgages with caps on interest rates have proven to be a valuable tool in the market place and would provide an important option to the veteran homebuying consumer. Interest rates for an adjustable rate mortgage are typically 1% to 2% points lower than a fixed rate loan. This results in a savings of as much as $100 in monthly mortgage payments. An ARM would also shield veterans from the inevitable rise in interest rates that occurs in each housing cycle. During a high interest rate environment ARMs are an even more attractive option because they carry lower initial rates. As rates fall ARMs allow the veteran borrower to enjoy rate decreases without the expense of refinancing.

Concern has been shown that veteran homebuyers are at the lower end of the affordability market and could be impacted by a rising ARM. With the new credit underwriting guidelines implemented by the VA Administration last year however, more stringent qualifying guidelines are required on VA loans.

Additionally, if the ARM is patterned after the FHA ARM there would be no negative amortization. The cap under FHA is on the interest rate (1% per year with a 5 year maximum over the life of the loan)not on the payment which is a protection for the consumer. When ARMs were first introduced, there were a number of variations that allowed for negative amortization -- that is, payments did not cover all of the interest due. Unpaid interest was added to the loan balances and borrowers could end up owing more than the home was worth. This type of loan suffered a very high foreclosure rate and was quickly abandoned.

We hope that you will support an ARM for the VA homebuyer as the Veterans Administration is the only market participant that does not offer such a program.

ADMINISTRATIVE CHANGES

Regional Residual Income Guidelines

NAHB policy urges the Veterans Administration to adopt residual income guidelines which more accurately reflect living costs in local areas when qualifying veterans for home loans. (Attachment E). Legislation passed last year called for a tightening of underwriting criteria for VA home loans. The regional limits adopted by VA are an average of high and low cost areas and as a result are having the effect of unnecessarily disqualifying creditworthy veterans. Our analysis shows that a family of four earning 150% of state median income would have difficulty in qualifying for a VA loan on a median price home in eight of the 22 states analyzed.

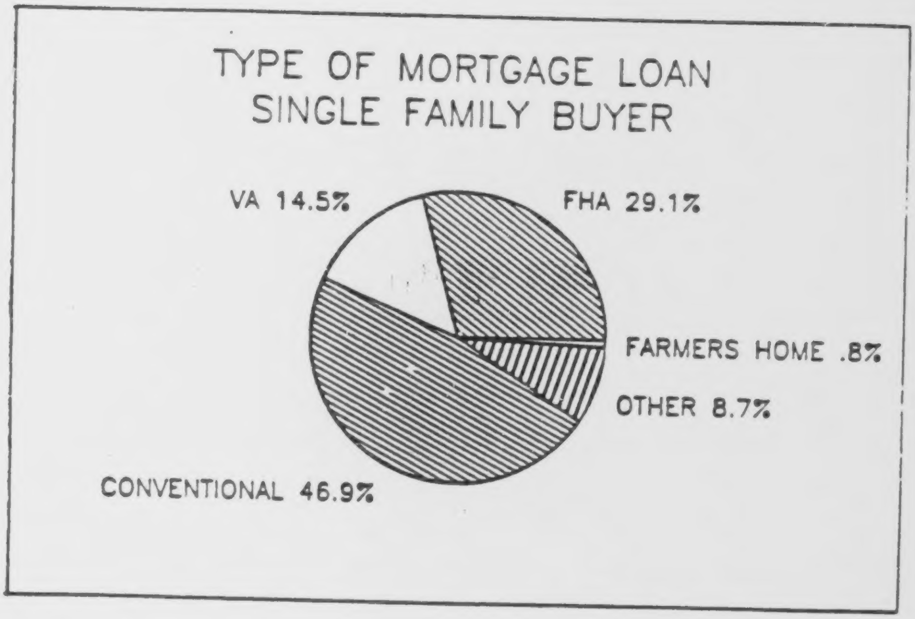
We support and encourage efforts which VA has undertaken to evaluate the impact of this regional approach and to consider the benefits for in-service personnel. By using residual income guidelines which more accurately reflect costs in specific cities and localities rather than by broad geographic regions and by including the value of benefits available to military personnel more veterans will qualify for home loans.

CONCLUSION

In closing, I would like to emphasize our opposition to the increase in the VA user fee and the establishment of a negotiated interest rate for veteran homebuyers. We support an increase in the loan guaranty maximum, exemption from mortgage ceilings and provision for an adjustable rate mortgage, so that veterans will be better assisted in obtaining home loans. It is essential that the VA remain true to its basic responsibility of providing credit assistance to veterans for the purchase of housing and to make maximum use of the loan guaranty program. The loan guaranty entitlement should not be denied our veterans and service personnel who have so ably served our country.

I would be pleased to respond to any questions you might have.

ATTACHMENT A



Source: National Association of Home Builders, "1986 Profile of the New Home Buyer: Single Family Homes, Condominiums."

ATTACHMENT B

Date: January 15, 1987

NAHB Resolution

VA Loan Guaranty and Interest Rate Limits

WHEREAS, the federal government provides a guaranty to lenders, which, in effect allows veterans to obtain low or no downpayment home loans; and

WHEREAS, the VA home loan guaranty maximum of $27,500 has not been increased by Congress since 1980, while the median sales price of a new home has increased by approximately 40 percent during those six years; and

WHEREAS, the VA loan guaranty needs to be raised to increase the availability of no downpayment VA loans in high cost areas; and

WHEREAS, the Gramm-Rudman-Hollings sequestration provisions have been interpreted to apply to the VA loan guaranty program; and

WHEREAS, the VA loan guaranty program is an entitlement program which should not be impacted by Gramm-Rudman-Hollings sequestration provisions; and

WHEREAS, NAHB has always supported the VA program as an entitlement for veterans, and has endorsed the administered rate process which helps ensure that veterans obtain a fair interest rate; and

WHEREAS, legislation has been introduced to both increase the VA loan guaranty maximum and exempt the VA program from sequestration under Gramm-Rudman-Hollings,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders urge Congress to approve proposed legislation that would increase the ceiling on the VA loan guaranty and to exempt the VA program from the Gramm-Rudman-Hollings sequestration provision,

BE IT FURTHER RESOLVED that NAHB urge Congress to continue VA's authority to establish the maximum allowable interest rate under the loan guaranty.

BOARD OF DIRECTORS ACTION: Approved

ATTACHMENT C

AVERAGE SALES PRICE OF NEW HOMES SOLD LOAN GUARANTY MAXIMUM COMPARED TO 1976

	New Single Family Homes		VA Loans	
	Average Sales Price/New Homes	% Increase Over 1976	Loan Guaranty Maximum	% Increase Over 1976
1976	$48,000	N/A	$17,500	0
1977	$54,200	12.9%	$17,500	0
1978	$62,700	30.6%	$25,000	42.9%
1979	$71,900	49.8%	$25,000	42.9%
1980	$76,600	59.6%	$27,500	57.1%
1981	$83,000	72.9%	$27,500	57.1%
1982	$83,900	74.8%	$27,500	57.1%
1983	$89,800	87.1%	$27,500	57.1%
1984	$97,600	103.3%	$27,500	57.1%
1985	$100,800	110.0%	$27,500	57.1%
1986	$111,800	132.9%	$27,500	57.1%

N/A = Not Applicable

Source: U.S. Department of Commerce, Bureau of the Census, Series C-25; Compiled by NAHB.

ATTACHMENT D

Date: January 15, 1987

NAHB Resolution

VA Adjustable-Rate Mortgage

WHEREAS, adjustable-rate mortgages typically offer lower initial rates than those available with fixed-rate loans; and

WHEREAS, this type of financing is particularly important during periods of rising interest rates in order to maintain the availability of affordable mortgage credit; and

WHEREAS, the Veteran's Administration is the only major market participant that does not offer an ARM program,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders work with Congress to establish a VA-guaranteed, adjustable-rate mortgage identical to FHA's adjustable-rate loan.

BOARD OF DIRECTORS ACTION: Approved

ATTACHMENT E

Date: January 15, 1987

NAHB Resolution

VA Regional Residual Income Guidelines

WHEREAS, the Veterans Administration has recently abandoned its practice of allowing each field station to set minimum residual income guidelines for loan underwriting purposes and has instead established new residual guidelines in four broad geographic regions intended to cover the country as a whole; and

WHEREAS, this change has resulted in increases in the residual levels for some family sizes in excess of 100 percent in five jurisdictions and in excess of 50 percent in 17 jurisdictions; and

WHEREAS, the new system does not distinguish between very high cost areas and lower cost areas; and

WHEREAS, the impact of the new system has been greatest for low- to moderate income households and in-service military; and

WHEREAS, the new residual income levels do not fully account for the savings available to military personnel for such items as medical benefits, commissary and BX/PX privileges, and entertainment; and

WHEREAS, the VA has indicated that these guidelines are intended to be used in conjunction with compensating factors which may affect a borrower's ability to repay a mortgage loan; and

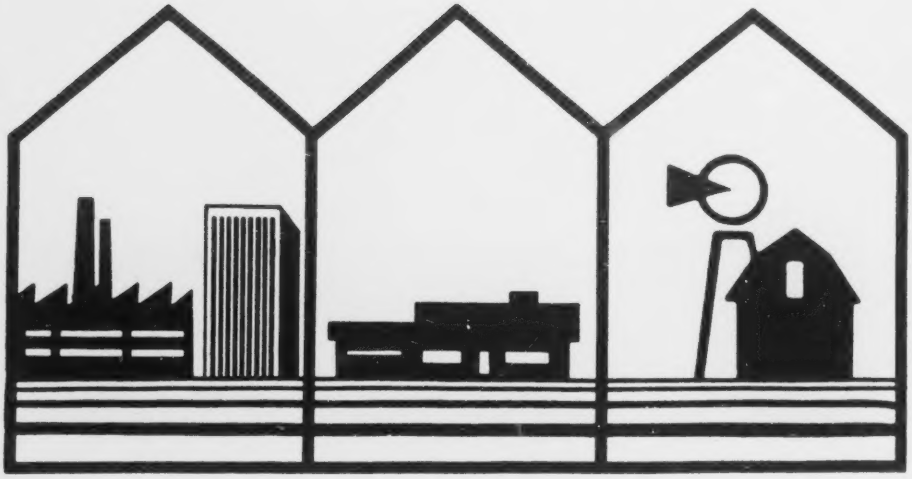
WHEREAS, the Veterans Administration is in the process of renewing its new residual income levels to determine whether and to what extent these levels should be adjusted to reflect the wide variations in the cost of living in different states and areas of the country, and to reflect the benefits of active military service,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders urge the Veterans Administration to explore and adopt residual income limits that more accurately reflect costs in specific cities and localities within each region,

BE IT FURTHER RESOLVED that NAHB urge the Veterans Administration to develop an estimate of the value of benefits available to military personnel and deduct this value from the minimum residual income of these borrowers, and

BE IT FURTHER RESOLVED that NAHB urge the VA to immediately advise its field offices and automatic lenders to take into account compensating factors, including local cost of living, when underwriting VA loans.

BOARD OF DIRECTORS ACTION: Approved



Statement of the
NATIONAL ASSOCIATION OF REALTORS®
THE WORLD'S LARGEST TRADE ASSOCIATION

TO: SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS OF THE HOUSE VETERANS' AFFAIRS COMMITTEE

ON: VA HOME LOAN GUARANTY PROGRAM

BY: ROBERT J. MUFFLEY, VICE-CHAIR, FHA/VA GOVERNMENT MORTGAGE PROGRAMS SUBCOMMITTEE, REAL ESTATE FINANCE COMMITTEE

DATE: APRIL 22, 1987

STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS®
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE VETERANS' AFFAIRS COMMITTEE
BY
ROBERT J. MUFFLEY
VICE-CHAIR, FHA/VA, GOVERNMENT MORTGAGE PROGRAMS SUBCOMMITTEE
REAL ESTATE FINANCE COMMITTEE
APRIL 22, 1987

INTRODUCTION

Madame Chairwoman, my name is Robert J. Muffley. I am a REALTOR® from Gooding, Idaho and the 1987 Vice-Chair, FHA/VA of the Government Mortgage Programs Subcommittee of the Real Estate Finance Committee for the NATIONAL ASSOCIATION OF REALTORS®. On behalf of the more than 780,000 members of our ASSOCIATION, I want to thank you and the members of your Subcommittee for the opportunity to present our views on veterans' housing issues, and specifically, those matters affecting the VA Home Loan Guaranty Program.

Madame Chairwoman, we are delighted to see that the VA Home Loan Guaranty Program recently reached the 12 million loan mark, evidence of the program's success in providing homeownership benefits to veterans who have served our country for the past 43 years.

The NATIONAL ASSOCIATION OF REALTORS® continues to believe in the viability of the Home Loan Guaranty Program, and pledges its support to working with this Subcommittee to insure that the Program continues to serve the veteran homebuying public.

Over the past six years, we have reviewed, analyzed and commented upon a multitude of changes that the Administration has proposed regarding the various federal housing credit programs. We are here today to express our concern over the relentless, piecemeal efforts of this Administration to dismantle these programs. It appears evident that the Administration will continue its efforts to privatize these federal programs in order to further its objective of reducing the federal government's role in housing. We feel it is imperative that Congress develop a formal NATIONAL HOUSING POLICY in order to provide a reasoned framework in which to address this nation's housing needs.

In fact, our ASSOCIATION, the Mortgage Bankers Association and the National Association of Home Builders feel so strongly about the need for a NATIONAL HOUSING POLICY that we developed our own statement, which was announced and distributed on March 17th. A copy of our recommendations, entitled "Toward a National Housing Policy" is attached to our testimony for the record.

INCREASED "USER FEE" IN THE VA HOME LOAN GUARANTY PROGRAM

As in the past, the NATIONAL ASSOCIATION OF REALTORS® continues to oppose an increase in the VA "user fee". Since FY1986, this Administration has recommended an increase of the current 1 percent VA "user fee". This year, the President's FY 1988 budget recommends that the 1 percent funding fee (which is scheduled to expire on September 30, 1987) be increased to 2.5 percent on June 1, 1987. The June date, according to the VA Administrator, Thomas K. Turnage, is necessary in order to obviate the need for an appropriation to the VA Loan Guaranty Revolving Fund (LGRF).

The VA Home Loan Guaranty Program was established as a veterans' benefit, an entitlement program that was secured by service to one's country. There was no Congressional intent that the program serve as an instrument to achieve any federal economic objective. Instead, since its inception, the sole objective of the program has been to assist eligible veterans to become homeowners.

The crafters of the original legislation realized that "credit" was the essential ingredient to this program. Therefore, the program was structured to provide veterans with accessible mortgage credit in an attempt to compensate for any lost opportunities veterans may have suffered in the market during the period of their military duty.

Not only does the program seek to provide favorable credit, but it attempts to qualify as many veterans as may be "eligible". To be "eligible" for the home loan guaranty benefit, the veteran must meet service and discharge requirements, must qualify under flexible income and credit standards, and must occupy the home being underwriten by the VA loan.

In fulfilling the objective of easy credit accessibility, the program has become for some a benefit to which they feel entitled and to others a mortgage lender of last resort. To increase the "user fee" would certainly impact negatively on this latter group of veterans, possibly disqualifing them from the program for one of two reasons. Either the veteran would be unable to pay the additional "user fee" upfront or, if they opted to amortize the additional fee over the life of the loan, those veteran borrowers in the marginal category would find that lenders would be reluctant to underwrite the resulting higher loan-to-value ratio loans.

The purpose of this program would be dramatically altered by a "user fee" increase, and "eligible" veterans desiring homeownership would likely be denied. Therefore, the NATIONAL ASSOCIATION OF REALTORS® commends the Subcommittee for its introduction of H. Con. Res. 79, which reaffirms the sense of Congress that the one percent fee should not be increased

Madame Chairwoman, we share the continuing concern over the financial stability of the VA Loan Guaranty Revolving Fund (LGRF). This Fund is responsible for paying both the program's administrative costs as well as mortgage claims. Unfortunately, the Direct Loan Revolving Fund (DLRF), which historically transferred its earnings to the LGRF when a deficit occurred in that Fund, is no longer operative.

Because the Direct Loan Program was terminated in 1981 (except for a small number of loans for specially adapted housing), and because the Administration has required VA to sell the majority of its direct loans, the steady interest income stream previously used to supplement the LGRF is no longer available.

The situation is further excaerbated by the Administration's efforts to require VA to sell its vendee loans to investors without recourse. Because these assets must be sold at a discount, it is highly likely that funds generated from such sales will be inadequate, and will result in additional losses to the LGRF.

Furthermore, by requiring sales without recourse, the government loses the opportunity to market the loans to secondary mortgage market investors.

We understand that VA's recent announced sale of loans without recourse resulted in light bidding, low prices, and the Administrator decided not to accept any bids. Madame Chairwoman, we suspect that no bids were accepted because the prices offered were to low to warrant consideration.

CHANGE VA ADMINISTERED INTEREST RATE

In 1983, the NATIONAL ASSOCIATION OF REALTORS® supported a provision in the Housing and Urban-Rural Recovery Act which changed the FHA administered-rate to one which is negotiated by the parties in the mortgage transaction. The program, as adopted by Congress, freed FHA rates from any maximum limitation and allowed all FHA-insured mortgages to bear an interest rate and points as agreed upon by the borrower and lender. The program was designed to substitute the market forces of supply and demand for the artificial restriction on interest rates for FHA-insured loans.

Last year, this ASSOCIATION reviewed the findings of the Department of Housing and Urban Development (HUD) on the Program's performance since its enactment in 1983. According to HUD, private competitive forces appear to be working effectively in the program, and homebuyers have been provided the necessary flexibility with which to structure a loan favorable to their particular needs.

Statistics following the effective interest rates and discount points on FHA loans since deregulation indicated that points have not only stabilized but, on average, have decreased on FHA loans with the same rate as the VA maximum rate. Compared to points during the FHA administered-rate, the data shows that points have declined from 4.46 prior to deregulation to 3.78 following deregulation. According to HUD, the program has behaved in a rational manner with no extreme fluctuation in the interest rate or point spread, and has continued to maintain a relative rate advantage over conventional loans.

In keeping with our previous policy, the NATIONAL ASSOCIATION OF REALTORS® supports a negotiated rate for the VA Home Loan Guaranty Program. However, if Congress considers legislation freeing the VA rate, we believe that it will be important to study the potential impact of this action, since there will no longer be a "benchmark" rate.

INSTITUTE DIRECT APPRAISALS IN VA HOME LOAN GUARANTY PROGRAM

The NATIONAL ASSOCIATION OF REALTORS® supports the development of a direct appraisal system within the VA Home Loan Guaranty Program. At the ASSOCIATION'S January Mid-Winter Meetings in Denver, Colorado, our Board of Directors approved the following action:

> "The NATIONAL ASSOCIATION OF REALTORS® supports legislation to implement a "direct appraisal" (loan processing) system for the VA Home Loan Guaranty Program."

During the 99th Congressional session, Representative Star Parris (R-VA) introduced legislation, H.R. 4948, which would have authorized the Veterans' Administrator to establish an appraisal system, within the VA Home Loan Guaranty Program. Appraisal reports completed by VA-designated fee appraisers, would be received and reviewed by approved lenders, without VA staff involvement. The approved lender would determine and eventually certify that an appraisal reflects market or reasonable value, not the staff of the VA. The approved lender would then be allowed to close the loan on the basis of its review, without further VA staff involvement.

Current law provides that the amount of a loan provided by the VA Home Loan Guaranty Program may not exceed the reasonable value of the property, as determined by the (VA) Administrator. Current law also directs the (VA) Administrator to notify the prospective homebuying veteran of the determination of the property's value. The VA should retain its ultimate authority for determining market or reasonable value. However, the VA Home Loan Guaranty Program must be granted some flexibility in fulfilling its mission to its veterans. This is especially true during periods of increased loan processing activity as witnessed last spring and summer. In order to better serve veterans, this proposal would allow the VA Administrator to establish a system whereby approved lenders would review appraisal reports and then, in turn, notify the veteran of the property's market or reasonable value.

As outlined in the Parris bill, fee appraisers would continue to be randomly selected by the VA. Again, however, the appraisers' reports would be provided directly to approved lenders, who would, in turn, independently review the appraisals, determine market or reasonable value, and close the loans on the basis of that review. Of course, the ASSOCIATION would insist that the VA establish specific criteria which lenders whould be required to meet prior to being granted authority to process loans in this manner.

The change contempleted in the Parris' bill is similar to the appraisal process which is part of HUD's FHA Direct Endorsement Program. In 1983, our ASSOCIATION was instrumental in initiating this FHA program which the industry and HUD agrees has been very successful. Today, more than 80 percent of FHA's loan applications are processed through direct endorsement lenders.

We support this legislation because we believe that these changes will provide more timely service to the homebuying veteran. In addition, we maintain that this change will allow VA field offices to operate more effectively under its current staffing constraints.

LOAN PROCESSING

Over the past, the VA Home Loan Guaranty Program has helped over 12 million veterans achieve homeownership. While improvements can be made in loan processing, in general, given the staff constraints, the program is operating effectively.

We have conducted an informal survey of our REALTORS® who are actively involved in the program. In general, our members have found the program suffers needless delays because of the lack of staff and equipment resources. In some areas the delays are significant, while in many areas, particularly those with a high use of the automatic approval process, the delays are less onerous.

Madame Chairwoman, I must agree with my colleague from the Mortgage Bankers Association that the loan process could be accelerated if the lender performed some of the clerical functions similar to HUD's direct endorsement program. In addition, as I mentioned earlier, we believe that a direct appraisal system, such as envisioned in the Parris bill would also streamline the loan function.

The ASSOCIATION, once again, urges the Subcommittee to consider this legislation because we believe that these changes will provide more timely service to the homebuying veteran, and will free VA staff to perform other tasks in the loan approval process.

INCREASE VA HOME LOAN GUARANTY MAXIMUM

The NATIONAL ASSOCIATION OF REALTORS® continues to support initiatives to raise the Veterans' Administration (VA) loan guaranty maximum from its present level of $27,500. The loan guaranty, also known as the veterans' entitlement, is the amount available to veterans on home loans through the VA Home Loan Guaranty Program. This entitlement is not a maximum loan limit, but rather a maximum loan guaranty. Traditionally, lenders have been assured protection through this guaranty mechanism; thus, allowing for the elimination of a downpayment requirement when a veteran purchases a home.

The lending industry has interpreted the guaranty limit to mean that the maximum loan made without a downpayment may be roughly four times the guaranty maximum. In this way, lenders are making 75 percent loan-to-value (LTV) ratio loans. If a veteran wishes to secure a VA-guaranteed loan in excess of the entitlement, most mortgage lenders require the veteran to put down 25 percent of the excess, thereby keeping the LTV at 75 percent.

Since October 1, 1980, the guaranty maximum has been $27,500 or 60 percent of the loan, whichever is less. A veteran with a full entitlement of $27,500 or 60 percent and who meets the VA's underwriting requirements can usually secure a maximum loan of four times $27,500 or $110,000 with no money down.

However, as we are all well aware, housing prices have risen since 1980. Consequently, the veteran homebuyer's purchasing power has decreased each year and the loan guaranty maximum has not been raised to reflect this appreciation of home prices.

According to the NATIONAL ASSOCIATION OF REALTORS® Existing Home Sales Report, in October, 1980 the median sales price of an existing single-family home was $62,700. By December, 1986 the median sales price had risen to $80,600 — an increase of 29 percent. The ASSOCIATION'S Outlook for the Economy and Real Estate forecasts a 5.0 percent rate of home price appreciation during calendar year 1987. At this rate of appreciation, the median sales price of an existing single-family home in December, 1987 is estimated to be $84,107. (SEE ATTACHMENT A).

It is estimated that from October 1980, the last time the loan guaranty maximum was increased, to the end of calendar year 1987 the change in the median price of existing single-family homes represents a substantial increase of 34 percent. This analysis supports an increase of the loan guaranty from $27,500 to $36,850.

Clearly, the VA homebuyer's purchasing power has already decreased 29 percent since October, 1980 and is estimated to decrease another 5 percent by the end of 1987, if the loan guaranty maximum is not raised. The NATIONAL ASSOCIATION OF REALTORS® recommends an increase in the VA loan guaranty which will ensure that the value of the guaranty keeps pace with increases in the housing market, and therefore, strongly supports the provision contained in S. 9, the Service-Disabled Veterans' Benefits Improvement Act of 1987, which seeks to increase the maximum loan guaranty to $36,000. We are aware that suggestions have been made to increase the guaranty level to $30,000. While this increase would certainly provide for increased homeownership opportunties, we prefer the $36,000 level because it more appropriately responds to the documented need to meet home price appreciation.

EXEMPT VA HOME LOAN GUARANTY PROGRAM FROM GRAMM-RUDMAN-HOLLINGS

Last year, the NATIONAL ASSOCIATION OF REALTORS® Board of Directors adopted policy to support legislation which would exempt the VA guarantee authority from the Gramm-Rudman-Hollings (G-R-H) deficit reduction law. Therefore, the ASSOCIATION supports the provision in S. 9, which removes the VA Home Loan Guaranty Program from the purview of G-R-H and thus, would exempt the program from sequestration.

The ASSOCIATION believes that this particular program should be granted a permanent exemption from the G-R-H's threat of sequestration for the following reasons: First, a fee is charged when a VA guarantee is issued to a veteran. This fee is channeled into the VA Loan Guaranty Revolving Fund (LGRF). Consequently, a sequestration cap, which would reduce the total amount of guaranties and thus, the amount of fees collected in a given fiscal year, would actually increase the deficit.

Second, an exemption would avoid the need for Congressional action to raise a sequestration cap in a given fiscal year in order to prevent the threatened interruption in the program's service to veterans. In 1986, the Congress responded to such threats by raising the sequestration cap on this program. The ASSOCIATION has every confidence that Congress would respond in a similar manner to any future threat of interruption in the program. However, an exemption would provide needed security, stability, and predictability to the program.

Finally, the ASSOCIATION agrees that if a sequestration cap were allowed to be implemented, it would be inequitable in its application. Cutting off the issuance of commitments when a sequestration cap was reached would deny a guaranty to a veteran whose loan application was approved after the cap was reached. This could risk the veteran's purchase agreement falling through while waiting until the start of a new fiscal year and a new sequestration cap.

The NATIONAL ASSOCIATION OF REALTORS® has always considered the VA Home Loan Guaranty Program a veteran entitlement which has been secured through service to one's country. In order to provide its most optimal usage, this program should be allowed to operate in an unfettered manner, without any unnecessary interruptions.

CHANGE IN UNDERWRITING GUIDELINES FOR VA HOME LOAN GUARANTY PROGRAMS

Effective October 1, 1986, the VA Home Loan Guaranty Program instituted new underwriting guidelines. Developed by VA after seeking comment form housing/lender industry, these new guidelines reflect VA's commitment to reducing the number of VA home loan foreclosures.

For the past several years, the NATIONAL ASSOCIATION OF REALTORS® has encouraged VA to strengthen its underwriting standards to ensure that the veteran borrower has the ability to assume and discharge the financial obligation of a home loan. We commend VA for its efforts to strengthen its standards, where necessary, in order to reduce foreclosures and thus, the risk to the Loan Guaranty Revolving Fund (LGRF).

The new guidelines revise VA's existing minimum income standards for veteran homebuyers which, in the past, have been left to the discretion of the VA regional offices. In addition, the guidelines make adjustments in the types of debts which must be included in determining the veterans' monthly obligations. Finally, the standards establish a number of "benchmark" gross income-to-ratios which signal the loan underwriter to forward the application to a higher authority for review before approval.

Under the new system, income requirements are determined by the Department of Labor's Consumer Expenditure Survey (CES). The CES is used to establish regional standards for "minimal residual income". Since implementation of these new standards, considerable concern has been raised about the affects of the new residual income requirements. Our ASSOCIATION has heard from REALTORS® in the South, as well as parts of the Midwest and west, where these new "minimal residual income" standards are making it very difficult for a disproportionate number of veterans in the area to qualify for VA loans.

We have also heard from REALTORS® in some states, like Montana and my state, Idaho, which are in VA's western region, along with states like California and Hawaii. These states typically have a population marked with a higher income levels than those who reside in states like Montana and Idaho. Because of this income disparity, the residual level required under VA's guidelines for the western region may be appropriate for areas like

California, but effectively disqualifty veterans who reside in Montana and Idaho.

Because we generally regard VA's improved guidelines a positive and necessary step toward preventing defaults in these situations, the NATIONAL ASSOCIATION OF REALTORS® is working with VA on a "case-by-case" basis in attempt to minimize the affects of the new standards.

VA ASSUMPTIONS

Madame Chairwoman, it is our understanding that there has been some discussion of requiring new credit underwriting on VA loans which are assumed when a veteran sells his/her home.

As you may know the NATIONAL ASSOCIATION OF REALTORS® has been an active opponent of HUD's proposal to require a credit check of all assumptors within 24 months of origination or of a previous assumption.

Easy assumability has been a feature of FHA-insured and VA-guaranteed inception of both programs. It is widely acknowledged that this feature has been instrumental in increasing the marketability of home with FHA-insured or VA-guaranteed mortgages. In today's market where most fixed rate conventional mortgages contain "due-on-sale" clauses, the FHA and VA programs are one of the last bastions of fixed payment mortgage instruments which allow assumability.

Especially during periods of rising interest rates, the free assumability of FHA and VA mortgages has often substantially enhanced the value of a home. The buyer benefits because he or she can assume a loan below the prevailing market rate. This assumability also translates into a benefit for the seller by increasing the demand and thus, value for his/her home.

Madame Chairwoman, we are not aware of any data which supports the claim that a majority of VA defaults have arisen from assumptions and we can see no reason to change the VA assumability feature which has worked successfully over the past 43 years.

We are concerned that requiring new credit underwriting on VA loans which are assumed will be detrimental to both sellers and potential buyers of homes secured with VA loans.

Prospective veterans sellers may find it more difficult to sell their homes because potential buyers may be unwilling to undergo an expensive, burdensome, and time-consuming underwriting procedures.

This change in the assumability of VA mortgages could also have a long-term, negative impact on the VA-LGRF. By requiring new underwriting, it is likely that potential homebuyers who, at one time, would be willing to take over the monthly mortgage payments from a seller who was experiencing serious financial difficulty, will no longer be amenable to assuming the VA mortgage because of the additional cost and the time imposed by the new requirement. Therefore, financially-strapped homeowners with a VA-guaranteed mortgage will have few other alternatives but to default on their VA mortgage. When this occurs, VA must pay the claim and take title to the foreclosed property. VA is then responsible for both the management and disposition of the property.

The NATIONAL ASSOCIATION OF REALTORS® does share the Subcommittee's concern about veterans obtaining proper release of liability when their loan is assumed. While the current release of liability process is a relatively timely and easy one, our experience with veteran sellers (and FHA sellers, also) demonstrates that veterans are not aware of the option they have to obtain this release.

We urge the Veterans Administration to publish the availability of the release option in all relevant veteran bulletins, and that an appropriate announcement be printed on the original loan documents.

EXTEND THE VA FEE

We understand that it has been suggested that the current one percent VA fee, scheduled to expire at the end of fiscal year 1987, be extended for a three-year period.

Madame Chairwoman, the NATIONAL ASSOCIATION OF REALTORS® continues to believe that the original goals of the VA Home Loan Guaranty Program are worthy ones, deserving of commitment by Congress and the American public. As a result, we support maintenance of the VA fee at the current one percent level.

REFINANCING OF VA LOANS BY TRANSFERRED VETERANS

The NATIONAL ASSOCIATION OF REALTORS® supports the proposal to permit refinancings of VA loans by veterans who have been transferred. We believe this proposal will aid veterans who are unable to meet residency requirements, but who have high interest rate loans.

PROPERTY MANAGEMENT AND DISPOSITION

Madame Chairwoman, we are aware that the Administration is still considering the establishment of a pilot program to determine the effectiveness of contracting with a commercial organization for the management and disposal of VA's inventoried properties.

As we have previously testified, we do not believe that implementation of this proposed pilot program is necessary. As you may know, the ASSOCIATION has been working with VA (and FHA) for over a year to develop a cooperative effort by which REALTORS® and other real estate professionals across the country can assist these agencies to dispose of their properties.

There are three components of the program: real estate professional education, real estate community/agency relations, and disposition methods. In the majority of our six demonstration sites, the program has been successful in educating an increased number of real estate professionals as to the proper procedures required for selling a VA inventoried home. We have found that many interested real estate professionals shy away from VA's sales program simply because they are ill-informed. The program has offered an opportunity for these individuals to learn the process and become involved in selling these properties.

In all cases, our members, staff and other real estate professionals have met with cooperation, enthusiasm and interest on the part of the VA Regional Office staff. In some cases, our demonstration sites have established relationships with VA property management staff for the first time. In other areas, the program has served to improve and further existing relationships. We have found, however, that each meeting has been successful in developing a better understanding between real estate professionals and VA property management staff. Many times, we found that simply opening communication served to resolve what had been perceived to be long-standing problems between the two parties.

Providing for alternative disposition methods has met with varying degrees of success in our demonstration sites, and we are still in the process of refining the prototype standards. Our experience thus far has shown us that successful implementation of disposition methods depends significantly on the particular demonstration site. As a result, we are also continuing to "fine-tune" the criteria for site selection, and have, in fact, established two more sites which meet our updated standards.

Our Northern California area is, perhaps, one good example of how the program is working to increase real estate professional access to VA property information. The San Francisco VA Regional Office has established a "computerized bulletin board," in which real estate professionals can access information regarding VA's listings. Not only can real estate professionals call up a particular VA property listing, but they can also access the status of that property. The "bulletin board" has just become operational, but the response from the real estate community has been very positive.

The "bulletin board" concept appears to be a workable, yet cost-effective method to increasing exposure of VA's properties. Unfortunately not all VA regional offices are so fortunate to have the resources to dedicate to this endeavor. If we have learned anything in our visits to VA regional offices over the past several months, it is that the VA Home Loan Guaranty Program departments are woefully understaffed and without adequate resources. This situation becomes even worse when we examined the staff and resources available specifically to the property management section of the Program.

In fact, Madame Chairwoman, our visit to the Southern California area last week is an excellent example of how the addition of comparatively very little resources could greatly aid the VA in the disposition of its inventoried properties. For example, for as little as $100 to $250, the cost of a computer modem, and $1,500, the cost of an IBM-PC, we could install a comparable "bulletin board" in the Los Angeles area, which could be accessed by the 70-plus Boards of REALTORS® and other real estate professionals in the region. Unfortunately, the VA Regional Office in Los Angeles simply does not have the dollars to fund even these minimal equipment needs.

In other areas, real estate professional advisory councils and VA staff agreed to test the viability of the "Bulletin board" concept. However, when confronted with similar needs for a personal computer and the necessary staff time, we found that these resources were simply not available to property management areas. Madame Chairwoman, if this or any other program to increase sales of VA's inventoried properties is to work, VA must be provided with the proper tools to meet its goals. The limited staff available to property management and disposition is working hard to dispose of these inventoried homes, sometimes in very creative, cost-effective ways. However, they simply need additional basic resources. Oftentimes, there aren't enough funds to even keep an information "hot line" open for the public and the real estate community.

VA VENDEE SALES

The Administration has also proposed increasing the minimum and maximum percentage of inventoried properties sold without vendee financing. Current law requires VA to sell at least 25 percent, but no more than 40 percent of its inventoried properties without vendee financing. The Administration's legislative proposal calls for VA to sell at least 30 percent, but no more than 60 percent without vendee financing.

We believe that the current percentage limitations have worked well over the past two years, and that VA needs the flexibility to use vendee financing to sell its inventoried properties, particularly in areas with depressed housing markets where lenders are reluctant to provide financing. We are also aware that VA has been meeting the limitations, and has, in fact, been selling approximately 30 percent of its properties without vendee financing. At this point, we can see no reason to increase the minimum and maximum percentage limitations.

ASSISTANCE FOR HOMELESS VETERANS

The NATIONAL ASSOCIATION OF REALTORS® supports efforts to provide shelter for homeless veterans. We have reviewed the provisions of S. 477, the "Homeless Veterans Assistance out of 1987," and we certainly believe that the goals of S. 477 are deserving of Congressional attention.

S. 477 proposes that VA-acquired properties which have been on the market for 12 months or more be used to house homeless veterans. While we feel that this proposal is a creative approach to the solving the homeless veterans problem, we urge this Subcommittee to examine all of the potential ramifications of such a program.

Because we are concerned about the continued health of the Loan Guaranty Revolving Fund, we strongly recommend that sale of VA's inventoried properties to appropriate sponsor organizations be made on a fair-market value basis. This approach will insure that the solvency of the LGRF will be maintained, while simultaneously providing sorely needed shelter for homeless veterans.

CONCLUSION

In conclusion, Madame Chairwoman, the NATIONAL ASSOCIATION OF REALTORS® strongly supports the continued unrestricted operation of the VA Home Loan Guaranty Program, and urges you and the members of this Committee to take the lead in preserving this valuable program.

Thank you for the opportunity to present our comments. I will be happy to answer any questions.

ATTACHMENT A

Median Sales Price of Existing Single-Family Homes*
(Not Seasonally Adjusted)

October 1980	December 1986	Percent Change
$62,700	$80,600	29%

Forecast of Home Price Appreciation During 1987**

4.0%

Estimate of Change in Existing Home Prices from 10/80 to 12/87

($62,700)(.29) + ($80,600)(.04) = $21,407

10/87		Estimate		12/87
$62,700	+	$21,407	=	$84,107

Estimate of Percent Change in Existing Home Prices from 10/80 to 12/87

34%

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* "Existing Home Sales", Economics and Research Division, NATIONAL ASSOCIATION OF REALTORS®, December, 1986.

** "Outlook for the Economy and Real Estate", Forecasting and Policy Analysis Division, NATIONAL ASSOCIATION OF REALTORS®

Statement of

The American Legion

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by

PAUL S. EGAN, DEPUTY DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
THE AMERICAN LEGION

and

EMIL NASCHINSKI, ASSISTANT DIRECTOR
NATIONAL ECONOMICS COMMISSION
THE AMERICAN LEGION

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

on

VA HOME LOAN PROGRAM

on

April 22, 1987

STATEMENT OF

Emil W. Naschinski
Assistant Director
Economic Commission

and

Paul S. Egan
Deputy Director
Legislative Commission
The American Legion

Before the

Subcommittee on Housing and Memorial Affairs
Committee on Veterans Affairs
United States House of Representatives

April 22, 1987

Madam Chairwoman and distinguished members of the Subcommittee:

The American Legion appreciates the opportunity to share with you our views on the Veterans Administration's Loan Guaranty Program and also on the subject of homeless veterans. Attached to our written statement are three pertinent resolutions that were adopted by The American Legion this past September. We respectfully request that these resolutions be made a part of the record of this hearing.

As I am sure you know, Madam Chairwoman, the VA's home loan program was originally conceived as a part of the Servicemen's Readjustment Act of 1944. The purpose of this legislation (PL 78-346) was to aid in the economic and sociological readjustment of the millions of men and women who were then serving in the Armed Forces of the United States. This program was viewed as a viable alternative to a cash bonus as it was vastly less expensive to the Government, and because it would better serve the needs of the veteran, and the economy.

Supporters of PL 78-346 felt that veterans, because of their years of service to their country, had missed an opportunity to establish a credit rating which would be the basis of borrowing to acquire a home or business loan. In essence, it was an attempt to place the veteran on an economic par with his or her nonveteran counterpart.

Congress also saw a home loan program for veterans as an investment outlet for the vast amounts of individual savings that had accumulated during World War II. During the war years, normal investment outlets were restricted because of the shift from the production of civilian goods to war materials. As a result, large sums of money became available for investment purposes. It was expected that a normal postwar depression would occur making it important that planning be done to stimulate the redirection of accumulated liquid capital into normal peacetime avenues.

Despite the very difficult economic times that followed World War II, the VA home loan program was a stunning success. Over the years it has continued to be a very popular and successful program which has benefitted not only the veteran; but, our economy and our country as well.

The reason that we say that it has been successful is because during the 43 years that it has been in existence, the VA home loan program has allowed more than 12 million veterans and their families to become homeowners. Granted, many of those veterans could have qualified for other types of financing. On the other hand, a vast number of those 12 million veterans would not be homeowners today had it not been for the no down payment feature of VA backed mortgages.

Another successful aspect of the VA's Loan Guaranty Program has been that, with the exception of the past few years, it has remained financially self-supporting. In our opinion, there are several reasons why the program has become insolvent and has had to rely on supplemental appropriations since 1984 to meet its financial obligations.

The first of these came about as a result of the Budget Reconciliation Act of 1983 which required the VA to sell its portfolio of direct or vendee loans. Though immediate and short term savings were projected, this move proved to be highly disruptive to the stability of the Loan Guaranty Resolving Fund (LGRF), which is the fund that is used to pay off guarantees in the event of foreclosure. Without this portfolio, the VA was unable to borrow on its assets to meet guaranty obligations at precisely the same time that foreclosures were increasing dramatically. During Fiscal Years 1984 and 1985 the supplemental appropriations that were necessary to keep the program solvent amounted to $260 and $306 million respectively.

At the time, it was projected that the sale of the portfolio would generate $968 million in savings that would go to the Treasury as miscellaneous offsetting receipts. In actuality the sale of portfolio loans in 1983 only netted the Treasury $683.9 million. Continued sales in 1984 netted the Treasury another $853.7 million. Even though the savings were less than projected, the 1983 and 1984 sales of VA loans permitted savings for the Treasury amounting to $1.5 billion. Given the size of this figure, and the interest that would have accumulated, it would appear that sufficient assets could have been generated to cover LGRF shortfalls created by high foreclosure rates had the VA been permitted to maintain and properly manage its loan portfolio.

During the first part of this decade the foreclosure rate on all types of mortgages rose to the highest level since the Depression. The reasons for this were simple. Because of double digit inflation, the cost of homes and interest rates skyrocketed. While the cost of homes was increasing by some 10 to 15 percent a year, the interest rate on VA backed mortages rose to an all time high of 17.5 percent in October of 1981.

Many veterans, as well as American home buyers in general, mistakenly believed that their salaries would keep pace with inflation. Hence many Americans bought homes with prices and monthly payments that had previously been unthinkable. Then, when the 1982 recession struck, millions of Americans were suddenly faced with extended layoffs, closed factories, reduced or static earnings, or structural joblessness. Needless to say, this kind of economic turbulence led to record numbers of defaults and foreclosures on VA loans and subsequently to a drain on the LGRF.

While the economy and the housing market have improved considerably during the past 18 months, there are still a number of problems with the VA Loan Guaranty Program which must be addressed.

The first of these problems is the "user's fee". In 1983 Congress imposed a one half percent user's fee on all new VA loans made to non-disabled veterans. The proceeds of this fee were to go to the Treasury to help reduce the national deficit. A year later, the user's fee was raised to one percent and the proceeds were redirected from the Treasury to the LGRF for the purpose of defraying the administrative cost of running the program.

Every fiscal year since 1984 the Administration has proposed raising the user's fee. The American Legion, which opposed the user's fee from the beginning, has fought this proposal. To us, the user's fee is nothing more than a form of taxation: a tax which has been placed on an earned entitlement. In our opinion, those who are entitled to use this program have already paid a dear price for their eligibility.

It is also our view that the user's fee defeats the purpose of the program by creating a disincentive for its use. When the veteran purchases a home, he or she has the option of either paying the fee in full at the time of sale, or including it in the total loan amount and amortizing it over the life of the loan. In either case, lower income veterans and first time home buyers are often shut out of the housing market because they can neither pay such a fee up front, nor can they afford the increase in monthly payments that such a fee can represent.

Madam Chairwoman, the legislation that authorized the user's fee is due to expire on September 30th of this year. It is our sincere hope that you and the members of this Subcommittee will join with The American Legion in opposing its continuation.

The Administration has also recently proposed amending Subsection 1803 of Title 38, U.S.C. to allow veterans to negotiate their own interest rate with the lender. Under the current provisions of the law, the interest rate on VA guaranteed loans is set by the Administrator of the Veterans Administration. This rate, it should be noted, is the maximum interest rate lenders may charge.

Madam Chairwoman, there are some factions within the Administration who advocate getting the Federal Government out of the credit market. It would appear that one means to attain this end is to circumvent the purpose of the VA's Loan Guaranty Program and thereby make it unattractive to veterans.

It is often contended that VA loans, because of the no downpayment feature, are less secure than either conventional or FHA loans. This simply is not true. What is true, is that the foreclosure rate on VA loans has always compared very favorably with those of other types of loans.

The American Legion believes that if the Administration's proposal were to be adopted, that the no down payment feature of the VA home loan program could be seriously jeopardized. We also believe that in order for a veteran to negotiate a favorable interest rate, it would no doubt be necessary for that veteran to make a sizable down payment. If this were the case, there would be little or no incentive for the veteran to use the program. Currently 72.8 percent of all primary VA home loans are made with no down payment. Once lack of participation became an issue, it would be very easy for the Administration to justify doing away with the VA's Loan Guaranty Program.

There is one piece of legislation that The American Legion believes must be introduced by this Subcommittee concerning the VA's Loan Guaranty Program. This legislation is needed to correct an inequity that exists concerning the veterans liability in VA loan assumptions.

One attractive feature for the VA home loan is that it is assumable by all future purchasers of that property. This, of course, provides benefits for both the buyer and the seller.

Under current law, if the veteran decides to sell his or her home, it is possible for the buyer to assume the veteran's original loan. If that buyer should decide to sell the home at some point in the future, the loan can again be assumed. The problem with this is that unless the veteran secures a release from liability from the party assuming the loan, the veteran continues to be liable for the unpaid balance of the mortgage should the buyer, or some subsequent buyer, go into foreclosure.

For whatever reason, the veteran who allows the buyer to assume the loan is often unaware of his or her responsibility under the law until it is too late. Frankly, Madam Chairwoman, we are mystified as to why the VA has not made more of an effort to inform veterans of their responsibility in this regard.

The legislation that we seek from this Subcommittee should make it mandatory for the person assuming a VA loan to also assume complete responsibility for that loan in the event of foreclosure. Furthermore, we believe that it should also contain language which would provide relief for those veterans who have become, or who may become at some later date, indebted to the VA in this manner.

Finally, we would like to address the issue of homelessness among veterans. As you well know, Madam Chairwoman, many proposals have recently surfaced concerning the best way in which to attack this major problem. One proposal considered by the Senate suggested using houses that have been acquired by the VA through foreclosure as a means of housing the homeless. While The American Legion is deeply concerned about the welfare of the Nation's homeless, we nonetheless have reservations about this proposal.

It is our belief that the lease of these homes as shelters will in many cases have a deleterious effect on relations between the VA and the local community. Residential communities have been, and are, very resistant to the placement of shelters, halfway houses, or other publicly supported residential facilities in local neighborhoods. We foresee highly publicized conflicts between the VA and local governments and communities. We hasten to add that we are not necessarily rejecting these proposals out of hand. Indeed, under certain circumstances, veterans and their families, especially those temporarily dislocated by joblessness or underemployment, could benefit from this measure.

Madam Chairwoman, that concludes our statement. Mr. Egan and I will be happy to respond to any questions you may have.

THE AMERICAN LEGION
68TH NATIONAL CONVENTION
CINCINNATI, OHIO
SEPTEMBER 2-4, 1986

RESOLUTION 93

SUBJECT: AIDING HOMELESS VETERANS

WHEREAS, The problem of the homeless in the United States, especially in the urban areas, is attracting greater attention and the recognition that these homeless people constitute a great loss to society; and

WHEREAS, Studies have shown that approximately 30 percent of the homeless are veterans, averaging under 40 years of age; and

WHEREAS, Unemployment and their veteran status has contributed to the homeless condition of many of these veterans; and

WHEREAS, The Assistant Secretary for Veterans Employment and Training in the Department of Labor is responsible for delivery of employment services to veterans in the Department; now therefore be it

RESOLVED, By The American Legion in National Convention assembled in Cincinnati, Ohio, September 2,3,4, 1986, that The American Legion participate in programs to aid homeless veterans, and to cooperate with and promote, efforts by the Department of Labor, the Department of Health and Human Services, the Department of Defense, and any other agency with the resources to aid in the rehabilitation and employment of these veterans.

THE AMERICAN LEGION
68TH NATIONAL CONVENTION
CINCINNATI, OHIO
SEPTEMBER 2-4, 1986

RESOLUTION 467

SUBJECT: SUPPORT VA LOAN GUARANTY PROGRAM

WHEREAS, The VA home loan program, as a benefit available to veterans who served their country honorably, has provided nearly 12 million veterans with the opportunity to own their own homes; and

WHEREAS, Because of changing economic conditions and the very volatile nature of the real estate market, many hundreds of thousands of Vietnam era veterans have been unable to purchase their first homes; and

WHEREAS, The home loan program has operated successfully under the Veterans Administration since 1944, and has acted as a model for similar programs; and

WHEREAS, From time to time initiatives are made in the home loan progam that would dilute the intent of the home loan program and make it more difficult for veterans to obtain VA-guaranteed home loans; now therefore be it

RESOLVED, By The American Legion in National Convention assembled in Cincinnati, Ohio, September 2,3,4, 1986, that The American Legion support the home loan program for veterans in the Veterans Administration, and oppose any regulations or legislation that will make it difficult for veterans to buy homes; and be it further

RESOLVED, That The American Legion oppose imposition of any user fee; and be it finally

RESOLVED, That The American Legion support legislation to exempt the VA home loan credit limits from the requirements of Gramm-Rudman-Hollings legislation.

THE AMERICAN LEGION
68TH NATIONAL CONVENTION
CINCINNATI, OHIO
SEPTEMBER 2-4, 1986

RESOLUTION 511

SUBJECT: VA LOAN ASSUMPTION

WHEREAS, The VA's home loan program, one of the most important of all veterans benefits, has provided over 11 million veterans and their families the opportunity to become home owners; and

WHEREAS, One of the attractive features of the program is that, if the veteran chooses to sell his home, his VA-backed loan may be assumed by the purchaser and by subsequent purchasers; and

WHEREAS, Under present law, unless the veteran has secured a Release from Liability from the VA at the time of the sale, and, in case of default by any purchaser who assumes the veteran's original loan, the veteran remains liable for the unpaid balance of the mortgage; and

WHEREAS, Many veterans, unaware of the need to secure such a Release from Liability, have suffered financially because of having to pay off a debt that was not of their own making; now therefore be it

RESOLVED, By The American Legion in National Convention assembled in Cincinnati, Ohio, September 2,3,4, 1986, that The American Legion seek legislation to remove the VA requirement that a veteran must secure a Release from Liability statement when a purchaser assumes a VA loan, providing that the VA shall proceed only against the individual who defaults on a VA-guaranteed loan; and be it further

RESOLVED, That such legislation shall provide that the VA shall cancel any existing claims against any veterans who had previously owned such defaulted property, including those claims being processed at the time the legislation becomes effective, and cancelling any ongoing colllections from veterans because of such claims.

VETERANS OF FOREIGN WARS OF THE UNITED STATES

OFFICE OF THE DIRECTOR

STATEMENT OF

DENNIS M. CULLINAN, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

VETERANS ADMINISTRATION'S HOME LOAN GUARANTY PROGRAM

WASHINGTON, D.C. APRIL 22, 1987

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for the privilege of appearing before this distinguished Subcommittee to present the views of the Veterans of Foreign Wars of the United States with respect to the VA Home Loan Guaranty Program. The VFW is appreciative of the Chairman for holding this hearing, demonstrating his and the Subcommittee's continuing concern for our nation's veterans being able to achieve the American dream of homeownership.

In our view the VA Home Loan Guaranty Program is demonstrably one of the most successful and beneficial VA programs available to veterans. More then 12 million loans have been approved to date, thus attesting to its great popularity and viability. As to the necessity of this program, there can also be no doubt. Approximately 64 percent of all VA Guaranteed Home Loans are made without a down payment, something which is not generally possible with conventional loans, and this shows that many veterans rely on this type of financing precisely for the reason that they are not required to make a down payment. There can be no doubt that a vast number of veterans would not be in

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VFW MEMORIAL BUILDING ● 200 MARYLAND AVENUE, N. E. ● WASHINGTON, D. C. 20002 ● AREA CODE 202-543-2239

their own homes today if it were not for this program. We believe the VA Home Loan Guaranty Program should continue to enjoy the full support of both the Congress and the Administration.

Approximately 20 percent of this country's population of about 220 million people have their own homes thanks to the VA Home Loan Guaranty Program. Along with providing for the basic human need for shelter, homeownership instills a sense of civic pride in individuals which is at the very heart of Americanism. The VFW takes pride in the assistance it has given veterans in obtaining VA Guaranteed Home Loans. So we are highly gratified at being asked to appear here today to participate in improving this invaluable veterans' program.

Mr. Chairman, we will begin by addressing the first item which appears on this hearing's legislative agenda which was included with our letter of invitation. This legislative proposal would require new underwriting on VA loans which are assumed when a veteran sells his home, thereby releasing the veteran from future liability. Few things can be more disconcerting or, for that matter, detrimental to a veteran who has sold his or her house to a buyer who assumes the mortgage from which the veteran has not obtained a release of liability and the buyer fails to make payments. Since the veteran continues to be primarily responsible on the mortgage, in the event of foreclosure he or she is billed by the VA for any deficiency after the sale of the property. Thus a veteran is unfairly penalized and, in some circumstances, even financially ruined because of the monetary misadventure of another party. Consequently the VFW looks favorably upon this legislative initiative that would require new underwriting on VA loans which are assumed when the veteran sells his home, thereby releasing the veteran from future liability.

Another issue we will address today is the proposed extension of the one percent user fee for three years. It is a matter of record that the Veterans of Foreign Wars strongly opposes any increase in the user fee for a VA guaranteed loan. We believe that any such increase would constitute increasing what is already a discriminatory tax and would work both to the veteran's and the home loan program's detriment. The VFW strongly opposed the initial implementation of the one-half of one percent fee and was equally adamant in its opposition to this fee's subsequent increase to one percent. We believe this one percent fee should in fact be reduced or, better yet, totally eliminated. For this reason we would argue that the one percent user fee should not be extended for a protracted period of time, but should be reviewed annually with a view toward eliminating it entirely or, at least, reducing it to a level where it would be manageable by a greater number of eligible veterans.

Another proposal to be addressed here today is increasing the loan guaranty from $27,500 to $30,000. The VFW is always supportive of legislation which would make the VA Home Loan Guaranty Program more attractive and available. The cost of housing today, especially in certain high priced markets, is soaring. Increasing the home loan guaranty by a modest $2,500 certainly wouldn't be out of step with this inflationary trend. We believe increasing the loan guaranty from $27,500 to $30,000 is a move in the right direction and we support such an action.

Today's legislative agenda also contains a proposal to require a down payment on manufactured homes. The VFW does not subscribe to a legislative initiative which would make the VA Guaranteed Home Loan for manufactured homes less attractive and available. Many veterans who can afford mortgage payments on manufactured homes have not been able to save the amount required for a down payment. What makes the purchase of a manufactured home so attractive is the relatively low cost and "no money down" provision of current law. A down payment requirement would discriminate against those purchasing manufactured homes and would effectively disqualify many veterans, especially younger and lower income individuals, who otherwise would have been expected to apply for and obtain such VA loans.

We will now briefly digress from the legislative agenda to address another related issue. When competent and reputable individuals are responsible for the production and sale of manufactured homes, they may be affordable, nicely furnished dwellings. Tragically, disreputable individuals in this industry have been defrauding unsuspecting veterans—predominantly lower income veterans—for years and in many instances have turned the American dream of homeownership into a nightmare of debt and foreclosed home loans. The VFW applauds the current effort underway to rid this industry of these swindlers. We are also of the opinion that steps should continue to be taken to prevent such abuse.

Currently the VA allows dealers a twenty percent profit above the invoice purchase price—but it is the manufacturer who determines this amount. Thus it is a relatively easy matter for the manufacturer to inflate the invoice price. This provides both manufacturer and dealer with a greater profit margin. The veteran is then made to suffer by having to pay more for his manufactured home than its actual value and the VA Home Loan Program suffers through a consequently higher foreclosure rate.

We believe the first step toward eliminating this particular scam is by financing manufactured homes the same way as site-built homes--based on individual appraisals rather than on manufacturers' invoices. Further, we would like to see closer monitoring of the manufactured home industry with an eye toward at least providing veterans with a listing of reputable manufacturers and dealers. It would also be well advised to provide veterans who are about to purchase either a manufactured or site-built home with a VA counselor or advisor to fully apprise him of all the obligations, responsibilities and potential pitfalls of buying and owning a home.

Returning to today's agenda, the VFW would support the proposal to permit refinancing of VA loans by veterans who have been transferred. The VA permits two types of refinancing--one is a refinancing with return of cash and the other one is refinancing at a lower interest rate with no cash back. These financing arrangements are only available to veterans who are occupying the premises. This prohibition is intended to prevent turning the VA Guaranty Home Loan Program into a investment program. The proposed legislative initiative would permit a veteran who is tranferred to another geographical area, and who cannot occupy his VA home, to refinance it under one of the above plans. The VFW would support such legislation since the veteran, for example, may have difficulty selling the property in a depressed area or may intend to return and reoccupy the VA home in the future. Both of these situations present acceptable reasons for allowing a transferred veteran to refinance his VA home.

Mr. Chairman we will now turn our attention to those items on today's agenda which are included under the heading of budgetary items. The first such proposal addresses the sale of all portfolio loans without repurchase agreements. The VFW has testified in the past that the legislative authority to permit the VA to sell mortgage loans in its portfolio without repurchase agreement is desirable. This is not to say the VFW supports the sale of all such portfolio loans, but that we recognize the desirability of selling some of these loans on this basis. The sale of mortgage loans without recourse rightly places the consequences of default upon the purchaser of the loan. This, of course, merely recognizes the speculative nature of certain loan purchases, primarily low interest loans and ones with a spotty record, and appropriately places the burden of risk on the speculator. A purchase of a mortgage loan without recourse is, of course, less attractive and to make the loan more readily saleable the VA may have to discount many of these loans in order to sell the mortgaged property. Certainly the sale by the VA of its mortgage loans without recourse may not be appropriate in each and every circumstance. However, there are also certain instances where this would be the wisest course of action for the VA to pursue.

The final budgetary item under consideration today is the proposal to sell off the VA's $900,000,000 loan portfolio over a three year period. The VFW would oppose the VA selling its entire loan portfolio over a three year period. We have no objections and, in fact, support the VA's selling of some of these loans inasmuch as this is a means to generate revenue. Based on the FY 1988 budget estimates, the sale on one-third of the portfolio would enable the VA to realize reduced outlays of about $190 million in FY 1988. However, the VFW would point out that this portfolio also represents VA assets which generates revenue in the form of principal and interest over the long run. To simply sell off this entire portfolio would constitute, in our minds, nothing other than a short-term fix serving to the detriment of the long-term operation of the program.

Mr. Chairman also under consideration today is the exploration of the homeless veteran issue. We are of course pleased to lend our perspective on this issue and we will also provide our comments, as requested, on the provisions of S. 477, a bill to transfer title of hard-to-sell houses from the VA's foreclosed property inventory to various agencies or organizations for the purpose of providing shelter to the homeless.

The VFW views homelessness as one of the most important and compelling issues to face this country in recent years. We commend the intent of this legislation, especially as it pertains to the identification of who the homeless are and how many homeless veterans are out there. We do have some concerns, however, about the provision granting authority to the Administrator to transfer title of foreclosed properties or lease such properties to various private or governmental entities, including veterans service organizations, to assist those organizations in providing shelter to homeless veterans. We are fearful that this provision could potentially harm the VA Home Loan Program by creating the potential for the injudicious use of such authority at some future date. However, in light of the tragic situation facing so many of this nation's homeless veterans and that the current language of S. 477 addresses all of our most immediate concerns, we would not oppose this bill's eventual enactment into law. Additionally, the VFW supports the proposal contained in S. 477 to establish a two year pilot program in ten areas with a sufficient population of homeless veterans to improve VA's ability to assist them. We also support the provision which requires a report on and increased outreach to homeless veterans to assure they are receiving the benefits to which they are entitled. And, finally, we support the provision which requires the VA, in concert with other agencies, to estimate the number and service periods of homeless veterans and identify benefits to which they are entitled.

In considering the current status and functioning of the Veterans Administration's Home Loan Guaranty Program along with the plight of the homeless veteran, the delegates to our most recent National Convention adopted Resolutions Number 617, VA Home Loan Guaranty Program, and Number 670, Homeless Veterans, which are appended to this testimony. We would respectfully ask for your careful consideration of the recommendations therein.

Mr. Chairman, this concludes my testimony. I will be happy to respond to any questions you may have.

Resolution No. 617

VA HOME LOAN GUARANTY PROGRAM

WHEREAS, the VA Home Loan Guaranty Program is one of the most successful and beneficial programs available to veterans; and

WHEREAS, the popularity of this program is evidenced by the fact that over twelve million loans have been guaranteed to date in an amount exceeding $246 billion; and

WHEREAS, loan origination fees have been enacted and subsequently increased in an effort to remedy the ailing revolving fund; and

WHEREAS, constructive changes have been implemented or proposed in the VA Home Loan Program, such as granting the VA Administrator the authority to (a) independently set VA Home Loan rates; (b) exercise greater latitude in establishing the VA home loan guarantee percentage/maximum amount; (c) authorize veterans the option to engage the service of buyer broker; and (d) amend the VA foreclosure policy to enhance the VA Loan Guaranty Revolving Fund, hence strengthening that program; now, therefore

BE IT RESOLVED, by the 87th National Convention of the Veterans of Foreign Wars of the United States, that we seek the introduction and enactment of legislation that will serve to maintain the VA Home Loan Guaranty Program as the most viable and desirable means of home financing for veterans; and

BE IT FURTHER RESOLVED, that we adamantly oppose any effort to further increase the current loan origination fee and encourage the Administrator of Veterans Affairs and other concerned parties to actively assist veterans in acquiring and maintaining their homes during economic crisis.

Adopted by the 87th National Convention of the Veterans of Foreign Wars of the United States, held in Minneapolis, Minnesota, August 15-22, 1986.

Resolution No. 670

HOMELESS VETERANS

WHEREAS, recent surveys and studies reveal a large number of homeless veterans in the homeless population, not only in large metropolitan areas, but smaller rural areas as well; and

WHEREAS, to have a homeless population in the U.S. is a national blight and to have a homeless veteran population is an embarrassment to an organization of veterans; and

WHEREAS, many of this homeless population are there due to the poor economic situation which now faces our country; now, therefore

BE IT RESOLVED, by the 87th National Convention of the Veterans of Foreign Wars of the United States, that we participate in aiding homeless veterans and promote or solicit the VA, HHS, DOD and other agencies to provide services to these veterans.

Adopted by the 87th National Convention of the Veterans of Foreign Wars of the United States, held in Minneapolis, Minnesota, August 15-22, 1986.

STATEMENT OF
STEPHEN L. EDMISTON
DEPUTY NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS AFFAIRS
April 22, 1987

MADAM CHAIRWOMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the more than one million members of the Disabled American Veterans, may I say how very much we appreciate the invitation to appear here today to provide our views on the VA Home Loan Guaranty Program, the issue of homeless veterans and comment on your proposed legislative agenda.

At the outset, Madam Chairwoman, the Disabled American Veterans wishes to commend you and the members of the Subcommittee for this timely exercise of your oversight responsibilities and consideration of a proposed legislative agenda addressing areas of importance and concern regarding the VA Home Loan Guaranty Program, as well as exploring the issue of homeless veterans.

VA Home Loan Guaranty Program

As you know, Madam Chairwoman, the focus of the VA Home Loan Guaranty Program is to assist eligible veterans in obtaining mortgage credit without a down payment for the purchase of existing or manufactured homes and construction of new homes

There is no doubt that the VA Home Loan Guaranty Program has been a good investment in America. It has helped millions of veterans and their families become homeowners -- thereby adding stability and expanding the tax base of nearly every community in our country. Since the program's inception on June 22, 1944, veterans have obtained over 12 million VA guaranteed home loans.

Veterans' use of the VA Home Loan Guaranty Program -- like private sector housing programs -- is subject to and directly related to general economic conditions and, more specifically, to conditions in the financial and housing markets.

As we all know, during the early 1980's, the housing and financial markets experienced a shortage of mortgage funds. This, coupled with increased home prices, as well as the highest interest rates in history and the unprecedented rates of high unemployment, adversely impacted on the VA's Home Loan Guaranty Program.

Veterans, like all Americans, were victims of these economic conditions and, as a result, there was a dramatic decline in the number of home loan guarantees approved by the VA (Fiscal Year 1982 was the lowest since 1944), accompanied by an equally heavy increase in home loan defaults and subsequent foreclosures.

Fortunately, those economic conditions have improved and mortgage funds are generally more available, interest rates are down from their record-breaking high in Fiscal Year 1982, and home prices have remained relatively stable. Additionally, the high rates of unemployment have also been reduced significantly.

Unfortunately, however, the VA Home Loan Guaranty Program continues to experience unacceptably high rates of foreclosure.

As you are aware, Madam Chairwoman, to increase revenues to the VA Loan Guaranty Revolving Fund, the Congress enacted legislation -- Public Law 98-369, The Deficit Reduction Act of 1984 -- that increased the user fee from .5% to 1.0%, required the fee to be deposited in the Loan Guaranty Revolving Fund and extended authority to collect the fee through September 30, 1987.

We feel it appropriate at this time to thank you, Madam Chairwoman, and the members of the Subcommittee for your recent actions to reject the Administration's proposal to increase the user fee in Fiscal Year 1988 to 2.5%.

Additionally, at this juncture, we would like to comment on the anticipated expiration of the 1% user fee on September 30, 1987. As you know, this fee was originally established as a deficit reduction measure. At that time the DAV expressed serious reservations regarding the requirement that veterans pay for the privilege of using an earned VA benefit entitlement. As you know, final passage of the legislation that created the user fee provided a specific exemption for all compensably disabled service-connected veterans and certain surviving spouses, for which the DAV is most grateful.

Madam Chairwoman, as the time draws near for the Subcommittee to consider legislation to continue the user fee, the DAV must again express its serious reservations of requiring a veteran to pay for the privilege of using an earned benefit entitlement. However, should such an extension receive serious consideration by the Subcommittee, we strongly urge the Subcommittee to favorably consider continuing the exemption for certain surviving spouses currently exempted and service-connected disabled veterans, to include those who are non-compensably disabled.

Madam Chairwoman, numerous witnesses have come before the Subcommittee expressing concern over the unacceptably high numbers of foreclosures the VA continues to experience and relating their dismay with the slowness with which the VA responds to (1) the plight of veterans who are in arrears or default on their VA Home Loan Mortgage, (2) requests for appraisals and (3) VA home loan applications in general.

These witnesses have recommended a variety of proposals, programs and suggestions to assist veterans and the VA in avoiding foreclosures, thereby reducing the overall number of foreclosures experienced by the VA and, thus, reducing the loss of federal taxpayer dollars in the VA Home Loan Guaranty Program.

These recommendations include such things as new credit underwriting criteria on VA loans, improved appraisal practices and a variety of counseling and forbearance programs.

In addition to such recommendations, the DAV believes a number of administrative initiatives could also be implemented to effectively assist in dealing with the deficiencies of the program.

First, we must ask a number of questions that have a direct bearing in this regard.

1. What effort is the VA undertaking to insure that veteran homebuyers eligible for the VA loan guaranty meet reasonable credit standards prior to purchasing a home?

2. What steps have the VA taken to assist veterans who are in default and could possibly avoid foreclosure?

3. We understand that it can take the VA and the Justice Department from six months to five years to finalize foreclosure actions. What actions are both agencies taking to improve their timeliness in completing these foreclosures?

4. Following foreclosure action, how actively does the VA pursue collecting the debt that has resulted from the foreclosure?

Madam Chairwoman, we believe the answers to these questions could very well lead to administrative improvements that could result in substantial savings for the program. This is especially true if collected debts were deposited in the Loan Guaranty Revolving Fund; foreclosure actions were completed in a timely manner; only creditworthy veterans were approved for loans and veterans in default were to receive greater assistance from the VA.

Furthermore, we strongly believe that any and all funds secured as a result of fines and settlement agreements stemming from fraud in the VA housing program should also be deposited in the Loan Guaranty Revolving Fund.

As you know, the VA's Inspector General has conducted a number of investigations regarding fraudulent and poor appraisal practices, equity skimming, mobile home industry kickbacks, lack of a standard loan origination policy and faulty or false credit reporting.

These schemes have defrauded veterans and the Veterans Administration. We believe it is only appropriate to utilize funds collected from those who have violated the law to help the Loan Guaranty Revolving Fund which has been directly impaired as a result of these schemes.

In this regard, we would strongly urge you, Madam Chairwoman, and the Subcommittee, to take appropriate action to provide legal authority for the VA to deposit such funds in the Loan Guaranty Revolving Fund.

Furthermore, we believe a legislative remedy is necessary to identify and assist those veterans who have already lost their homes through foreclosure and were the victims of these fraudulent schemes.

Additionally, the DAV believes that the following steps should also be considered in an effort to preserve the integrity of the VA Home Loan Guaranty Program. These include:

1. Levying fines or considering debarment action against individuals or corporations when it is shown that by their negligent or fraudulent practices veterans and the VA have suffered financial loss.

2. Voiding loan guarantees when it is shown that lenders are materially at fault in qualifying non-creditworthy veterans who subsequently default on their loans.

3. Spot checking a specific number of credit reports to insure that they have not been altered after the credit report was completed.

4. To curtail equity skimming, the VA should be granted the authority for immediate access to property in foreclosures when it is shown that the veteran has vacated the property based on a conveyance or purported conveyance notwithstanding any state or local foreclosure law.

Madam Chairwoman, these suggestions and recommendations, coupled with those of forbearance programs, improved appraisal practices and new credit underwriting requirements could very well improve the overall VA Home Loan Guaranty Program.

However, the DAV cautions the Subcommittee with respect to these recommendations.

These recommendations are offered in an attempt to reach that delicate balance of a well-managed and financially sound loan guaranty program. It is not our intent to tread on the primary purpose of the VA Home Loan Guaranty Program -- that is to provide meaningful assistance to veterans in the form of favorable credit terms without a down payment for the purchase of a home.

Further, it is our firm belief that any and all VA loan program enhancements must include authorization and funding for sufficient personnel to carry out such innovations.

Without adequate numbers of personnel, most program improvements designed to assist veterans and save taxpayer dollars are, in our view, doomed for failure.

To emphasize our point, in Fiscal Year 1980, the VA Home Loan Guaranty Division of the Department of Veterans Benefits (nationwide) was staffed with 2,349 personnel and closed 297,447 guaranteed and insured loans. During Fiscal Year 1986, 1,969 VA Home Loan Guaranty personnel closed 313,769 such loans. It is no wonder that this Subcommittee and our own organization receive numerous complaints regarding the timely delivery of service from the VA and, as you know, Madam Chairwoman, prompt response to a veteran whose VA guaranteed mortgage is in arrears or default is critical to the effort of solving the problem and avoiding foreclosure.

Decisions made by the Subcommittee will directly affect the future of the VA's Home Loan Guaranty Program. We are confident that you, Madam Chairwoman, and the members of the Subcommittee will take appropriate action to insure that our nation's deserving veterans will continue to have the benefit of a well-managed and financially sound VA Home Loan Guaranty Program.

Homeless Veterans and S. 477

Madam Chairwoman, the DAV is pleased to respond to your request for information on homeless veterans. As you know, there is a paucity of data on this category of veterans. However, I am pleased to append to our testimony (Attachment A) information that we have been able to gather. We hope this information will prove useful to the Subcommittee.

In regard to S. 477, introduced on February 4, 1987, by Senator Cranston, Chairman, Senate Veterans Affairs Committee, this legislation proposes to provide assistance to homeless veterans through various programs of the Veterans Administration -- to include the VA Home Loan Guaranty Program.

Clearly the legislation recognizes the existence of a tragic and growing reality in this country -- that large numbers of individuals suffer from a lack of adequate shelter and other resources and are unable to obtain the basic necessities for a dignified life and existence -- of which veterans are estimated to comprise a significant segment of this group.

However, Madam Chairwoman, notwithstanding the sincere intentions of S. 477, the DAV has very serious concerns relating to the use of foreclosed properties in providing shelters -- even though the bill was modified when it passed the Senate on

March 31, 1987.

We do, however, feel that the use of underutilized or unused VA facilities by the VA for providing shelter is a viable and readily attainable proposal. We know that there are many such buildings situated on medical center grounds that could be adapted and used as a logical extension of the VA domiciliary program. Additionally, state veterans homes should not be overlooked as a potential source of providing temporary residence.

Additionally, the legislation would require the VA to conduct a pilot program in at least ten geographic regions to assist homeless veterans and their families.

As you are most likely aware, the Department of Labor has recently initiated a "Jobs for Homeless Veterans" project in ten cities nationwide.

Although we may not object to the VA's conducting a pilot program, we would envision that such an effort would not be duplicative but, rather, cooperative in nature with ongoing Department of Labor efforts.

Further, the bill would require the submission of reports on homeless veterans and chronically mentally ill veterans. In our view, these reports will result in the compilation of data that will enhance the government's knowledge, efforts and ability to assist these veterans.

Finally, Madam Chairwoman, it is our belief that the VA has been providing and will continue to provide significant assistance to homeless veterans by way of existing programs and authority...specifically: benefit counseling, the provision of various health care services, and the extension of monetary entitlements (nonservice-connected pensions) to indigent veterans and their families.

As we envision the intent of S. 477, trained veterans' benefits counselors would be ideally equipped to provide a vast array of services, as would existing professional health care personnel. The VA should be permitted and encouraged to do what they do best. Existing community resources are, perhaps, in the best position to provide shelter and food. Where this may not be possible, appropriate utilization of VA facilities, as mentioned earlier, may prove to be an appropriate means of providing temporary shelter and subsistence.

Proposed Legislative Agenda

Madam Chairwoman, regarding the proposed legislative agenda you provided and requested our comments, I believe we have, earlier in our testimony, generally commented on most of these areas.

However, with respect to increasing the loan guaranty from the current $27,500 to $30,000, the DAV has no official position. It appears though, in light of VA statistics for Fiscal Year 1986, wherein the average loan amount of homes purchased with the VA guaranty, exceeded $70,000, that an upward adjustment would be appropriate.

Should the Subcommittee favorably consider such an adjustment, the DAV strongly recommends a similar adjustment in the VA's Specially Adapted Housing Program for disabled veterans (Section 802(a), Title 38, USC) -- presently $35,500 and the VA's Housing Assistance Program under Section 802(b), Title 38, USC, presently $6,000.

Additionally, with respect to the Administration's proposals to (1) sell all portfolio loans without repurchase agreements and (2) sell the VA's $900 million loan portfolio over a three-year period, again, the DAV has no official position.

However, serious questions have been raised regarding the potential long term adverse consequences of these proposals, therefore, we strongly recommend that the Subcommittee examine these proposals very carefully before any action is taken to insure that no long term adverse results will damage the existing integrity of the VA Home Loan Guaranty Program.

That concludes our statement, Madam Chairwoman. I again wish to thank you and the members of the Subcommittee for allowing us this opportunity to express the DAV's views on these important issues.

Attachment

Attachment A

WHO ARE THE HOMELESS VETERANS?

It would appear from the limited data available that homeless veterans include those from World War II, Korea and Vietnam. It appears from the general profile that the concentration would be among Korean and Vietnam Era veterans. In most of the studies it is generally concluded the average age of the homeless is approximately 34. One exception shows up in a study of homeless at the Long Island Shelter for the Homeless in Boston, Massachusetts, which found: "homeless veterans tended to be older white males."

In a study conducted in the Baltimore area it was found that 51% of the homeless had reported some military service, 36% being of the Vietnam Era. Another study conducted in Los Angeles County reported that 48% of homeless males were veterans. Another interesting finding in Los Angeles indicates that several of the post-Vietnam Era veterans became homeless after discharge from military service.

Studies conducted in Baltimore, Detroit, Los Angeles, Ohio, Phoenix and San Francisco found of all the homeless veterans, Vietnam Era veterans comprised 35%, 15%, 33%, 28%, 36% and 33%, respectively. This is an average of 30%. Therefore, it may be reasonable to conclude that approximately one-third of all homeless veterans are of the Vietnam Era.

WHERE ARE HOMELESS VETERANS LOCATED?

The data is somewhat sparse and most of the studies appear to have been conducted in urban areas. However, several studies conclude the homeless problem is both urban and rural in nature. While they don't specifically mention rural veterans, we must conclude from the general profile that there are homeless veterans irrespective of the geographic setting.

WHY ARE THESE VETERANS UNEMPLOYED AND UNABLE TO PROVIDE SHELTER FOR THEMSELVES?

A study conducted by the Ohio Department of Mental Health perhaps best summarizes the situation: "Our data clearly support the multiple-problem and multiple-cause nature of the phenomenon. On the other hand, it is equally clear that the...system has substantially failed to meet or even address the needs of this population."

This study found the plight of homeless veterans has been brought about by some of the same reasons the non-veteran has become homeless, e.g., alcohol and substance abuse (45.1% in Ohio) and psychiatric problems (the Ohio study found that of the nearly 30% of the homeless that had been hospitalized for emotional or psychiatric problems, 6.1% were hospitalized at a Veterans Administration hospital). However, in a Baltimore study, while 51% of the homeless had served in the military (36% indicated they were Vietnam veterans), only 7.8% of the homeless reported that their usual source of medical care was a VA facility. This is slightly higher than a California study which was restricted to psychiatric hospitalization.

Also, the following from a summary of the Baltimore study helps put this question in perspective:

> It is difficult to interpret what role military service might play in the life history of homeless persons, particularly with respect to etiology of homelessness, and little is known about how homeless veterans differ from

non-veterans in the population. The alienation experienced by many homeless people may be compounded by the sense of rejection described by some Vietnam veterans and create special problems in resettlement or the escape from homelessness. However, it seems clear that VA benefits, including health services, though available in major cities where the homeless congregate, are under utilized. Whether this underutilization is due to specific barriers to care within the VA system or operates according to rules that govern health seeking behavior for the homeless in general is less clear and warrants further investigation.

Policy implication. Problems of accessibility and acceptability within the VA system should be identified and remedial action taken to correct deficiencies. Where necessary, special services to address the needs of homeless veterans should be developed. In addition to traditional health, mental health and alcoholism treatment services, these services should include outreach, transportation to often remote sites for care, rehabilitation, and resettlement, e.g., into the well-established network of VA adult foster care homes for those too physically or mentally disabled to function independently.

Apparently, the most extensive research done on veterans as a subset of the homeless was the Boston study of the Long Island Shelter for the Homeless. We should point out that the Commonwealth of Massachusetts has already instituted a homeless program for veterans. The Long Island study surveyed new arrivals and asked why they were homeless. The following represents the responses:

* unemployment -- 20%

* financial problem -- 18%

* legal eviction -- 14%

* alcoholism -- 20%

The Long Island study revealed the following about the veteran homeless population:

* 31% were veterans and 37% of the male population were veterans;

* 19% reported receiving some veterans' benefits;

* of those who had previously resided in Massachusetts, veterans and divorced persons were likely to have been homeless longer than other groups;

* veterans used the shelter at double the rate of male non-veterans;

* 48% of the veteran population who visited the shelter at least once returned at least two additional times per month (this compares with 22% of the non-veteran males);

* veterans were somewhat more likely to have physical health problems;

* homeless veterans tended to be older white males more often divorced and more educated;

* one-third of these veterans had entered the military

service prior to 1960 and one-third entered after 1968;

* one-half had left the military since 1970;

* 90% had an honorable discharge and 95% either honorable or general discharge;

* half served in the Army;

* 24% reported they had a service-related disability;

* veterans were more likely to have dealt with hospitals and were somewhat less likely to have had contact with alcohol related and social service agencies than non-veterans.

The Commonwealth of Massachusetts has initiated a program to serve homeless veterans throughout the state. Apparently, the program has had some success in the areas of assisting homeless to receive employment; housing in foster homes, apartments and rooms; and medical benefits. Additionally, we are informed that Massachusetts has a special income maintenance program for veterans which is available to virtually any veteran in need. One report of services we have reviewed indicates that of 132 homeless veterans, 73 received the special state benefits; 21 were placed into unsubsidized employment; 74 were referred to small businesses and other employment resources for possible employment help; 35 were placed in rooms and foster homes; 37 were placed in alcohol, drug and PTSD counseling; 7 were referred for medical services; and 5 were referred for rehabilitation services.

CALIFORNIA ASSOCIATION OF REALTORS®
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JACK PAULSON
President

April 22, 1987

Ms. Gloria Royce
House Veterans Affairs Committee
335 Cannon House Office Building
Washington, DC 20515

Dear Ms. Royce:

The California Association of REALTORS® respectfully submits the attached testimony, in conjunction with that submitted by the National Association of REALTORS®, to the House Veterans Affairs Committee. We request that this testimony on current program and administrative issues confronting the Veterans' Administration home mortgage program be made a part of the hearing record of April 22, 1987.

Thank you very much for the opportunity to express our concerns on these important issues. Should you require any further information, please do not hesitate to contact Joel Singer at C.A.R. headquarters, (213) 739-8269.

Sincerely,

Jack P. Paulson

Jack Paulson
President,
California Association of REALTORS®

JP:hgb

REALTOR® – is a registered mark which identifies a professional in real estate who subscribes to a strict Code of Ethics as a member of the NATIONAL ASSOCIATION OF REALTORS®

Written Testimony
to the Committee on Veteran's Affairs
House of Representatives

Submitted by Jack Paulson, President
California Association of REALTORS®
April 22, 1987

As President of the California Association of REALTORS®--a statewide trade association representing 115,000 real estate licensees in California--I am grateful for the opportunity to present our perspectives on current program and administrative issues confronting Veterans Adminstration's home mortgage program. This commentary is submitted in conjunction with, and in support of, the testimony presented by the National Association of REALTORS®. The business activities of our membership involve the brokerage of real property as well as assisting buyers in the process of locating financing sources. It is this business thrust of our members and their involvement with government housing agencies such as the Veterans Administration that motivates C.A.R.'s active interest in these issues of vital concern to California's homebuying veterans.

I. Introduction

Nineteen-eighty-six proved to be one of the most turbulent years that the VA has experienced since its inception in 1944. Lending activity for FY 1986 reached record levels as the agency guaranteed 307,747 loans nationwide, of which 37,928 were made in California. The total dollar volume came to $22 billion, up 194 percent from FY 1985. In the current fiscal year, demand for VA loans has remained strong, spurred by continued low interest rates and more restrictive underwriting criteria in the conventional market. However, just as the agency has experienced a surge in demand for its services, it has concomitantly come under sharp attack by forces seeking to curtail its effectiveness in providing affordable mortgage credit to veterans. C.A.R. is deeply concerned over efforts to restrict or reduce the agency's ability to assist veterans seeking housing. The VA is a vital agency from which veterans receive much needed assistance; however, recent staffing shortages and administrative procedures have served to restrict the effectiveness of VA home mortgage financing in the California marketplace.

In conjunction with the FHA home mortgage program, the VA has played an important role in assisting the California homebuyer. As private lenders and secondary market investors have substantially tightened underwriting guidelines over the past two years, the FHA and VA programs have stepped in to provide thousands of homebuyers the only viable source of affordable mortgage credit. According to C.A.R. data, the FHA/VA share of newly-originated first mortgages in California increased from 16 percent in 1984, to 20 percent in 1985, to nearly one-quarter in 1986, despite the statutory loan limits that restrict the usage of FHA and VA mortgages in the high cost California market.

The state's high home prices have consistently outpaced the rest of the U.S. home prices for the past 15 years, and by the end of 1986, the median price for a house in California was 60 percent higher than the nationwide median. These high home prices have sharply boosted income and downpayment requirements, making homeownership extremely difficult for California veterans, particularly first-time buyers. In 1986, fully 56 percent of all newly-originated VA loans in California went to first-time buyers, while nearly 40 percent of VA borrowers relied on the program's no-downpayment feature. The median loan-to-value ratio on new VA loans in 1986 was nearly 97 percent. VA borrowers also took advantage of interest rates that were 0.75 percent lower than on conventional loans. In addition to the higher cash demands brought on by the state's high home prices, the typical veteran homebuyer faces a lower cash inflow. The median income for the VA buyers in California was $13,000 less than for buyers using conventional financing.

Newly-Originated Conventional vs. VA Mortgages: 1986

Characteristic	Conventional	VA
Median Interest Rate	10.25%	9.5%
Median Loan Amount	$118,020	$103,000
Median Sales Price	$149,997	$107,000
Median Downpayment	$ 30,800	$ 5,000
Median Loan-to-Value Ratio	79.9%	96.6%
Proportion of First-Time Buyers	34.5%	56.1%
Median Annual Household Income	$ 52,900	$ 40,000

Source: C.A.R. 1986 Housing Finance Survey

These statistics clearly indicate the vital role that the VA loan guarantee program serves in assisting California veterans achieve the dream of homeownership. Given the fundamental importance of the VA program, the Association would like to take this opportunity to comment on current administrative and program issues affecting the VA loan guaranty program.

II. VA Staffing Issues

As you are all aware, the nearly overwhelming volume of refinancing and sales activity in 1986 required Congressional action three times to raise the VA loan guaranty ceiling and avert program shutdowns. The high volume of activity also virtually exhausted VA staff resources, resulting in unprecedented loan processing delays. At the peak, VA loan processing typically took 4 to 6 months from appraisal order to closing. Although these extraordinary backlogs have been eliminated in recent months as the refinancing crunch has eased, even today VA loan processing is taking significantly longer than the 30 to 45 day turnarounds seen in the conventional market. For example, in the Northern California region, VA appraisals require up to 6 weeks for completion.

The Association feels strongly that the VA home mortgage program deserves additional staffing concordant with its importance to California's homebuying veterans. We believe that increased staffing, in conjunction with certain programmatic changes designed to improve the efficiency of the loan guaranty process (discussed below), would go a long way toward eliminating the costly delays and uncertainties currently being experienced by veterans.

Lender experience with freely negotiable rates and points on FHA loans generally has been positive, and has minimized the need for sellers to "cover" uncertainty over points in the price of the house. A similar freeing of rates and points on VA loans would provide for greater flexibility in the VA loan guarantee program and would greatly enhance the program's effectiveness.

III. **Negotiable Appraisal Fees**

The current VA practice of establishing an appraisal fee maximum is perhaps the major contributor to the loan processing delays faced by veteran homebuyers over the past year. Because tnese fees are rigidly set and lag movements in conventional market appraisal fees, veterans are often placed at a significant disadvantage in the homebuying process right from the start.

C.A.R. recommends that the VA allow appraisal fees to be negotiated and settled at the market rate rather than having the VA fix rates. Although VA appraisal fees in California are scheduled to increase May 1st to $200 in Northern California, and $250 in the southern part of the state, these levels remain at the low end of the range commonly charged for conventional appraisals. This proposal would help to avoid the significant processing delays experienced in the Spring and Summer of 1986 by veterans seeking a VA loan. Even with the scheduled fee increases, the VA will find it difficult to compete with conventional lenders who can outbid the agency for the appraisers' services, particularly during high volume periods. Thus, VA loans are given lower priority by appraisers, resulting in substantial delays during periods of high activity that puts veterans at a substantial disadvantage in the homebuying process.

IV. **Negotiated VA Interest Rate and Points**

Additional efficiencies in the VA home loan program could also be gained by eliminating current ceilings on VA rates and discount points. C.A.R. advocates proposals that would repeal the requirement that the Administrator of Veterans Affairs establish the maximum interest rate for VA guaranteed loans. The Association believes that interest rates and discount points on VA loans should be negotiated between the veteran buyer and seller. C.A.R. has received numerous reports during 1986 and 1987 that temporary run-ups in mortgage rates have substantially reduced the attractiveness and affordability of VA financing.

Unlike the FHA program, the maximum interest rate on VA loans is still administratively set, and therefore movements in this ceiling rate frequently lag market rates. Last year, the VA reduced the ceiling to 9.5 percent on March 3, and shortly thereafter market interest rates temporarily showed a significant increase. More recently, over the past month interest rates have jumped sharply, climbing as much as 2 percentage points in some markets. As mortgage and capital markets become increasingly integrated, this rate volatility will continue to be a common phenomenon in the mortgage marketplace.

As a result of this rate volatility, discount points charged by lenders to bring VA loan yields up to market levels have at times fluctuated from an "acceptable" level of about three points to over seven points in some markets. In the wake of the recent rate spike, market rates rose to 10.5 percent or more, while the VA ceiling was temporarily at 8.5 percent, and discount points soared to as high as 10 in some markets. Moreover, because veteran borrowers are limited to paying no more than the one point origination fee in most cases, the sellers are sometimes forced to make up the remaining large gap in discount points. This situation has, on occasion, put prospective veteran buyers at a significant disadvantage in the marketplace, as sellers tend to be extremely wary of buyers using government-backed financing. The rapid run-ups that are common in today's volatile interest rate environment will continue to periodically restrict veteran homebuyers as long as the administratively set ceiling remains in effect.

V. Loan Guaranty Amount/Credit Authority Issues

C.A.R. would also like to voice its support for legislation, similar to S.9 introduced in the Senate, that would increase the VA loan guaranty limit from the present level of $27,500. This increase would dramatically improve the effectiveness of the VA program in high cost areas such as California. Currently, only 30 percent of existing homes sold in California were priced at or below the current no-downpayment VA loan maximum of $110,000. An increase in the VA loan guaranty to $36,000 (as proposed in S.9) would boost the maximum VA loan amount to $144,000, thereby allowing the VA program to serve approximately 53 percent of the California resale market, vastly improving the ability of the VA program to address the needs of the California market.

In addition, C.A.R. supports efforts that would release the VA from the Gramm-Rudman sequestration process. Reducing the VA's exposure to those who wish to use the program as a "political football" would eliminate the uncertainties caused by potential shutdowns in VA lending resulting from restricted credit authority. The VA in 1986 was threatened three times with shutdowns when it reached its credit limit. Given expectations of continued strong demand for VA loans, the severity of the Gramm-Rudman sequestration process places a cloud of uncertainty over the program again in FY 87-88.

VI. VA "No-Bids"

According to numerous reports in the press, mortgage bankers are currently facing heavy losses on foreclosures of VA-guaranteed loans. The problem stems from a 1984 statutory change in the way the VA handles its loan foreclosures. When a VA-guaranteed loan goes into foreclosure, the VA has the option of paying the lender the full amount of the outstanding debt and taking over the property, or paying the amount of the guaranty ($27,500 or 60 percent of the loan amount, whichever is less) and leaving the property with the lender. However, a provision of the Deficit Reduction Act of 1984 requires the VA to simply pay the guarantee amount--the so-called "no-bid"--whenever the total outstanding debt exceeds the appraised property value minus acquisition, holding and sales costs.

Flat or declining property values in some regions of the state and nation, combined with the typically high loan-to-value ratios on VA loans, have resulted in a significant increase in VA no-bids. As a result of substantial no-bid losses, some lenders are reportedly considering withdrawal from the VA lending market altogether. Others appear to have substantially tightened their underwriting criteria for VA loans in anticipation of future no-bid foreclosure losses. In addition, some secondary market investors may have lowered their bid prices or are refusing to purchase some VA loans unless certain tightened underwriting criteria are met.

While these factors may reduce the availability and affordability of VA financing over the near-term, evidence suggests that the recent return of significant price appreciation to the majority of the California marketplace, in conjunction with VA efforts to resolve mortgage defaults more quickly, will result in a declining proportion of no-bid foreclosures. However, if these factors do not effect the anticipated reduction in no-bids, efforts will be needed to address the problem in order to prevent VA financing from becoming too "expensive" for lender participation.

VII. "Automatic Lender" Loan Declinations

In a recent letter to the VA and in testimony to the Senate Veterans' Affairs Committee, C.A.R. commented on two recent changes to VA underwriting guidelines. Effective October 1, 1986, the VA instituted revisions to its underwriting guidelines that changed the residual income standards from a state-by-state minimum to a regional minimum, and resulted in the introduction of a new total monthly obligations-to-gross-earnings ratio, which generally should not exceed 41 percent.

C.A.R.'s data indicate that, although the new residual income standards are more favorable for veterans purchasing homes in California, the new debt-to-income ratio would seemingly preclude many veterans from qualifying. We recognize the need for certain debt-to-income benchmarks, and commend the VA's emphasis that both this ratio and an applicant's residual income must be considered in the loan approval process. Along the same lines, we are fully cognizant that these criteria represent guidelines and not automatic reasons for approval or rejection. Nevertheless, the Association is concerned that many lenders will reject loans exceeding the 41 percent debt-to-income guidelines, even in light of compensating factors. Because the onus is on VA "automatic" lender underwriting staff to document any compensating factors if the expenses-to-income ratio exceeds 41 percent, lenders may simply employ the debt-to-income ratio to reject an application without taking the time to pursue the veteran's case further for possible compensating factors. This pattern is particularly likely in today's high volume market conditions. Furthermore, C.A.R. notes that the probability for loans to be unfairly denied based on debt-to-income ratios is increased, given the more restrictive underwriting guidelines implemented by some lenders in response to the current high ratio of VA no-bids.

Due to the restrictiveness of some lenders' underwriting guidelines, C.A.R. feels that veterans should have recourse to seek loan approval by other "automatic" or prior approval VA lenders without being "penalized" by having to reapply and pay loan application fees a second time. Thus, C.A.R. recommends that the Veterans Administration establish a review process for veterans who believe they have been unreasonably denied a VA loan by an "automatic lender" on the basis of underwriting criteria. Specifically, we suggest that lenders issuing a declination be required to assign the completed loan package to another automatic or prior approval lender at the veteran's request within 5 days.

VIII. Conclusion

C.A.R. wishes to thank the Committee for the opportunity to present its views on these issues of vital importance to the veteran homebuyer. To reiterate, the VA plays a crucial role in California's housing market, providing California veterans with a viable source of affordable mortgage credit. The Association believes that the program and administrative changes suggested here will help ensure that the VA can continue to serve the needs of California's veterans. The Association would be happy to provide any additional information that the Committee might need. Please contact the Department of Planning, Research and Economics at C.A.R. Headquarters at (213) 739-8269.

USL
UNITED STATES LEAGUE of SAVINGS INSTITUTIONS WASHINGTON OFFICE
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JIM COUSINS
Senior Vice President for
Legislative Affairs

April 3, 1987

The Honorable Marcy Kaptur
Chairwoman
Subcommittee on Housing and
Memorial Affairs
335 CHOB
Washington, D.C. 20515

Dear Chairwoman Kaptur:

On behalf of the members of the U.S. League of Savings Institutions, I respectfully submit the enclosed statement and request that it be made part of the record of the oversight hearing held on April 2, 1987.

If we can be of any further assistance to the Subcommittee, please do not hesitate to contact us.

Sincerely,

Jim Cousins

Jim Cousins

JC/p

THE AMERICAN HOME: THE SAFEGUARD OF AMERICAN LIBERTIES

STATEMENT OF THE
UNITED STATES LEAGUE OF SAVINGS INSTITUTIONS
SUBMITTED TO THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
COMMITTTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

APRIL 2, 1987

The United States League of Savings Institutions* appreciates this opportunity to participate in the Subcommittee's oversight hearings on the mortgage loan program of the Veteran's Administration. We wish to compliment Chairwoman Kaptur for calling a carefully focused hearing and focusing everyone's attention on specific issues affecting veterans and lenders who are part of this important program.

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* The U.S. League of Savings Institutions serves the more than 3,400 member-institutions which make up the $1.2 trillion savings association and savings bank businesses. League membership includes all types of institutions -- federal and state-chartered, stock and mutual. The principal officers include: Joe C. Morris, chairman, Emporia, Kansas; Theo Pitt, vice-chairman, Rocky Mount, North Carolina; William B. O'Connell, president, Chicago, Illinois; Phil Gasteyer, executive vice president and director of Washington operations. League headquarters are at 111 East Wacker Drive, Chicago, Illinois 60601. The Washington Office is located at 1709 New York Avenue, N.W., Washington, D.C. 20006. Telephone (202) 637-8900.

The U.S. League is pleased to offer our views on various aspects of the VA home loan program to assist the Subcommittee on Housing and Memorial Affairs of the Committee on Veterans Affairs of the U.S. House of Representatives in their oversight capacity of this program.

A review of our legislative policy reveals sound support for Title III of the Servicemen's Readjustment Act, Public Law 346, since it was enacted on June 22, 1944. We believe that Veterans, because of their sacrifice for this nation, are a special class of people deserving of the many benefits contained in this legislation. We also believe it is appropriate to periodically review the programs strengths and weaknesses to make it more adaptable to today's conditions. Enlightened policy and effective management can result in improved delivery of services to the veteran in the most cost effective manner for the government. This will insure that the program is accomplishing what it was intended to do originally by the Congress and needed changes are made as appropriate to meet changing economic conditions.

We believe that since it's inception the VA program has operated overall in an admirable fashion considering the no down payment and high loan-to-value ratio loans that have been guaranteed. We do recognize with the increase in foreclosures there has been increased cost to the government for this entitlement program and to the lender as well. Many new enhancements and innovations have been developed through the years including the "automatic guarantee" program which has speeded up processing of these loans. Allowing the prior approval procedure to be available and also operate allows lenders to select the program best suited for its size and method of operation.

However, with any program that delegates more authority to the lender the VA's quality control system must quickly track those few lenders that are not consistently meeting the minimum standards of the program.

A number of improvements were made to the program per the Veterans Benefits Improvement and Health Care Authorization Act of 1986. This Act, P.L. 99-576, October 28, 1986 amended the program as follows:

1. Sec. 1810 was amended to require the Veterans' Administration ("VA") Administrator to establish standards for use by lenders in underwriting, obtaining credit information and processing VA-guaranteed home loans. Such lenders are required to certify compliance with the Administrator's credit information and loan processing standards. Any knowing and willful false certification by a lender is subject to civil penalties.

2. Foreclosure provisions in Sec. 1816 were amended to require additional action by the Administrator and holder of a VA-guaranteed loan on which the borrower has defaulted.

3. Sec. 1830(a) was amended to permit the Administrator to use fee-basis attorneys without first conferring with the Attorney General in order to exercise the VA's rights to bring foreclosure suits or to recover possession of property acquired by the VA.

4. New Sec. 1831 was added to require the Administrator to prescribe standardized examination and qualifications for approving VA fee-basis appraisers. A lender has the option of requesting a second appraisal made by a VA fee-basis appraiser of lender's choosing.

5. New Sec. 1832 was added to require the Administrator to furnish real estate brokers with information on the availability and the procedures for disposition of real estate.

These changes have only been operational for a few months. We recommend giving these changes more time to see how the program operates as revised. Additional legislation on other aspects of the program and administrative fine tuning should handle most improvements that may be required to maximize benefits from enhancements to the program.

In the fiscal year ended, September 30, 1986, the VA guaranteed a record $21.9 billion in mortgages. This is nearly double the dollar volume for the previous 12 month period. In spite of tremendous efforts by the VA staff resources were simply not sufficient to keep the work flow always up to date. This was also true of lenders processing efforts during this period of unprecedented volume. The VA needs the flexibility and resources to handle extraordinary demands at peak time so the veteran borrower gets services in a timely fashion through every office in the system. Volume last year, in particular, made staffing levels inadequate for new production, plus increased delinquencies and foreclosures.

NO BID ISSUE

We appreciate the fact that the VA has always had the "no bid" option of paying the lesser of 60% of a loan's original balance or $27,500 and leaving the property with the lender if that is more profitable for the VA. However, over many years the VA made a practice of taking back the property rather than using the "no bid" option. In many cases, lenders entered into the program assuming this would be a continuing policy. This policy change has had a particularly harsh impact on lenders in the states with energy, agriculture, real estate and natural resource depressed economies. Lenders operating in these adverse economic conditions need some special consideration in the implementation of the "no bid" policy, particularly for loans made in the past on the assumption of a continuing VA administrative policy.

It should also be emphasized that the appraisals on properties now subject to the new procedures were made by VA approved appraisers. The lender was not directly involved in determining the value of the property. Nevertheless, as things stand now where these values may have become inadequate the lender under the "no bid" policy will pay for any mistakes.

The lender is under an obligation to make every effort to avoid or minimize a loss resulting from default after exploring all reasonable forbearance procedures to help the veteran meet his loan commitments. Once the lender has excercised every effort to cure the default as permitted under the regulations the foreclosure, as a last resort, should proceed as expeditiously as possible. To do this the VA and lender must work together to expedite the process. Any administrative improvements that can be made by the VA to make and implement the foreclosure decision, will minimize the total loss on each case and minimize those cases where the "no bid" policy would be cheaper for the government. Maximum forbearance by the lender should not penalize him by adding costs that trigger the "no bid" process.

In addition, the VA should not require a lender to assume 100% risk of a "no bid" if a veteran was previously turned down for credit reasons by an automatic guarantee lender and later approved by the VA.

The "no bid" procedure because of its expense has caused many lenders to reevaluate the entire program, comparing the risk assumed to the income received. The way the program is currently structured, a lender cannot be both a strong credit and real estate lender and make VA mortgages. Among the needed changes stronger guidelines to strengthen underwriting. Appraisals need to be in proper verifiable form, similar to that of a conventional appraisal in order that lenders may challenge the validity of the appraisal. Hopefully, implementation of new Section 1831 will help accomplish this. Down payments may be required on some VA mortgage if careful analysis indicates excessive risk in no down payment loans. Lenders with extensive experience using the program feel implementation of this requirement might give the veteran some incentive to retain a property to protect his down payment equity. This should reduce the number of properties that go into foreclosure and ultimately wind up as administrator owned properties. By way of comparison, private mortgage insurance companies have had to tighten up their requirements because of the losses they have sustained under economic conditions which have declined since their programs were originally marketed.

"Homeless Veterans Assistance Act of 1987"

Summary of S477

Authorization For Shelter for Homeless Veterans.

- We appreciate the severe personal problems of homeless veterans and their families. As a temporary expedient providing shelter is certainly an admirable goal. However, there is no neat and simple solution to each veteran's unique problems. The reason he is homeless and how to solve that problem is the fundamental issue that should be addressed. If the properties are to be disposed of in this fashion the cost of writing them down should be done by a professional appraiser so the defaulting veterans liability is correctly stated.

  The management capabilities of the nonprofit organization securing title to the properties will need to be assessed so the properties are successfully utilized and maintained in good repair in the event the reverter clause operates and they must be returned to the VA's inventory.

- The leasing of underutilized VA facilities will require careful analysis of the property management capabilities of the nonprofit organization and the costs to continue to operate and maintain the facilities that are not covered by the lease.

Initiatives Regarding Homeless Veterans.

- A pilot program to gain experience is certainly needed before a nationwide program is instituted. While 10 areas with significant populations may be practical in this initial stage of development, all veterans, both urban and rural, should be treated equally by the government under this program.

- This outreach program is desirable in that it can help the veteran receive benefits under the VA program and also make him aware of other programs to which he is entitled as part of the general population.

- This data needs to be gathered as a first priority to understand the magnitude of the problem and how this Act can contribute to a solution in the most cost-effective manner possible.

- We assume this program will be handled as a Direct program by the VA, since it is primarily a social type issue. It should be recognized that there will be VA staff requirements to implement the program. Resources will need to be budgeted in addition to present staff activities so the present programs will not be impacted by diversion of present staff.

LEGISLATIVE AGENDA

1. Require new underwriting on VA loans which are assumed when veteran sells his home, thereby releasing the veteran from future liability.

   As a sound lending practice the new borrower must be as capable of assuming the obligation to make each payment as the original mortgagor. Proper underwriting of the new borrower credit should release the original veteran from future liability. The cost of doing this underwriting and processing should be charged to the new borrower. As a practical matter veterans not released often move to distant locations and it is difficult to collect from the original veterans where the assumptor defaulted on the loan. The VA may have statistics on this item which could be reviewed. HUD has developed criteria for processing and underwriting an application on the assumptor which the VA might review. (See HUD Mortgagee Letter 86-15).

2. Extend 1% origination fee for three years.

   The current regulations permit the lender to charge and the veteran to pay a flat charge not exceeding one percent of the amount of the loan for the costs of loan origination in lieu of all other charges not expressly specified and allowed in the schedule of authorized charges. Present regulations specify this procedure. Congress should not only encourage the continuance of this policy but also require that objective studies be undertaken during the current year to determine the adequacy of the present 1% fee to assure that it covers lenders overhead but not produce additional profits.

We recognize that the VA desires to maintain the same minimum origination fee for all veteran groups, regardless of whether they served in World War II through Vietnam. This keeps the entitlement cost consistent for veterans of all wars. We are also cognizant of the fact that the same 1% on inflated home prices has provided the lender with more total dollars. There are those that have analyzed this fee and feel the costs of origination have exceeded the dollars received with the present 1% origination fees. Since the VA also charges this same 1% fee on their Direct Loans they should be consulted to see if it remains adequate for today's business conditions and objective studies undertaken to immediately determine its present viability.

We desire to see these fees remain as low as possible but that they be adequate to cover the lenders actual overhead costs. In the final analysis, if the program fails to provide adequate compensation for legitimate costs, it will not be used by the lending community and the Veteran will not get the benefits of what has been an excellent a well deserved entitlement for our very deserving veterans.

3. Increase loans guarantee from $27,500 to $30,000.

This amount has increased through the years from the original guarantee of 50 percent of the loan amount or $2,000 whichever was less, to the current guarantee of $27,500 or 60 percent of the loan amount whichever is less. This provides for a no down payment loan of up to $110,000 and a maximum of $135,000 loan for sale to secondary market agencies with a down payment required by the lender related to the excess loan amount over $110,000. We believe that with the escalation of real estate prices since the time the current guarantee went into effect justifies an increase to the $30,000 being considered. The benefits under this program are designed for all veterans and there is no restriction related to serving only low or moderate income borrowers. There has never been a VA restriction regarding the highest amount which may be loaned on a VA guaranteed mortgage, provided it conforms with all VA requirements. The increase in the guarantee will help alleviate at least some of the loss now experienced by lenders under the "no bid" procedure. The VA estimates these losses average about $16,500 per case.

4. Require a down payment on manufactured homes.

The no down payment policy of the VA Program has proved beneficial to many veterans, but at the same time has been counter productive to many others and certainly to the VA and the future of the program. The lack of borrower equity has contributed to delinquencies and repossessions for all products but has proven a greater factor for large ticket items, such as manufactured housing. Because of this we feel the program has in the past done an injustice to many veterans by establishing a vehicle which can ultimately result in damage to a veteran's credit standing and an impairment to future borrowing.

On the other hand, we do not want the requirement for down payment would be so great as to preclude the veteran from using the program. It should be such as to establish an inducement to pay because of an equity position and a sense of ownership rather than rental.

In addition, we feel that any down payment requirement should be based on the selling price of the home rather than the manufacturer's invoice. Basing it on the invoice price opens the possibility of fraud and invoice doctoring to provide the dealer with a satisfactory profit margin. The policy developed by the Federal Home Loan Bank Board for federally chartered savings institutions has proven successful and bridged that problem. That policy bases the required down payment on the total including, freight, set-up charges, taxes and other costs.

5. Permit refinancing of VA loans by veterans who have been transferred. V

Veterans who sell a home are permitted to secure entitlement again under the program. In the case of an assumption where there is a release of liability by the veteran he can take out a new loan in his new location. We are not sure how this proposal would operate. Certainly, if the veteran takes out a new VA loan in his new location the VA should have one

Budgetary Items

1. Sale of all portfolio loans without repurchase agreements.

The final regulation on this subject, that is effective April 3 makes sense. This regulation simply allows the VA to initiate a pilot program to offer vendee loans for sale without repurchase agreements. It does not affect the VA's authority to sell loans with recourse. This is a pilot program to determine the cost of disposing of loans without recourse, compared to the current procedure of selling these "4600" loans with recourse. The VA is aware that these loans will have to be sold at a lower price without recourse. It will be important to provide enough time for the test of the non-recourse procedure and to have accurate cost analysis of both methods so the most cost efficient procedure can be determined for sale of these loans.

2. Sale of VA's $900 million loan portfolio over a three-year period.

We believe that the sale of this portfolio is appropriate over time. This needs to be done on a very professional basis after careful analysis of the best methods to maximize the price that can be received. Care must be excercised that the sales do not disrupt the existing price structure. Legislating a specific three-year period may be too rigid and should be left to the administrator to maximize the dollar amount from sale of the portfolio. In any event, sale of assets does not seem to be a very promising means of balancing the Federal Budget.

March 9, 1987

Mortgage
Insurance
Companies
of America

Steven P. Doehler
Executive Vice President

The Honorable Marcy Kaptur
Chairwoman
Subcommittee on Housing and Memorial Affairs
335 Cannon House Office Building
Washington, DC 20515

MAR [illegible] 0 1987

Dear Chairwoman Kaptur:

Attached to this transmittal letter is the Statement of C. Earl Corkett. He is the current President of our trade association as well as the Chairman and Chief Executive Officer of PMI Mortgage Insurance Company headquartered in San Francisco, California.

MICA is very supportive of the Subcommittee's oversight activities and would be happy to respond to additional questions that may arise. The operations of our member firms are very similar to those of the VA home loan program so there are likely to be some parallels that may be useful in your Subcommittee evaluation.

There have been tremendous changes occurring in the housing markets that demand innovative responses. In order to preserve the benefits for the future of veterans we must employ new technologies and new private market capabilities in order to optimize the resources of government efforts.

We hope you will find our Statement useful.

Sincerely,

Steven P. Doehler

Steven P. Doehler

SPD/prt

Enclosure

1615 L Street
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202-785-0767

Statement of C. Earl Corkett, President of the Mortgage Insurance Companies of America, MICA in Connection with the Oversight Hearings Examining the VA Home Loan Program by the Subcommittee on Housing and Memorial Affairs of the House Committee on Veteran's Affairs.

March 24, 1987

Mr. Chairman and Members of the Committee:

The Mortgage Insurance Companies of America (MICA)* appreciates the invitation to submit comments on the VA home loan guaranty program. MICA is the trade association which represents all domestic private mortgage insurance companies (MICs). Our industry provides default insurance to lenders in much the same way that the VA does, enabling individuals through out the United States to purchase homes of their own with minimal down-payments.

MICA has been asked to comment on the overall scope and design of the VA home loan program from the perspective of the private mortgage insurance industry. We realize that the VA program was designed with certain public policy considerations in mind, which are not at issue when a private insurer evaluates risks and settles claims. MICA has always supported the program and continues to do so. However, if this Committee makes the policy decision to change the VA's program and method of delivery to conform to the private mortgage insurance industry, we hope our comments are useful.

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*MICA consists of the thirteen domestic private mortgage insurance companies which represent the active firms that help loan originators and investors make funds available to homebuyers by protecting these institutions from a major portion of the risk of default. The current MICA officers are President, C. Earl Corkett of PMI, San Francisco; Vice President, William Lacy of MGIC, Milwaukee, WI; Treasurer, J. Edward Carlton of Integon Mortgage Guaranty Insurance Co., Winston Salem, NC; and Secretary, Fred Reichelt of Verex Assurance, Inc., Madison, WI. MICA also has private mortgage insurance companies members in Canada and Australia.

As a preface to the statement it is important to note that because of state insurance laws designed to limit risk, MICs cannot insure loans where the buyer does not make at least a five percent downpayment. Therefore, the no and very low dowpayment loan guarantee of the VA has always been beyond the capability of a private insurer.

In evaluating today's operations of the private insurance program, it is important to recognize a number of recent developments that have changed the nature of the risks facing insurers and have increased the number of defaults. These may have important considerations in evaluating VA program performance. Briefly explained, MICs have identified the following four general categories that have caused an upward shift in the number of defaults: (a) changing characteristics of the borrower such as borrowers who are not occupying properties but have purchased them as investors, or borrowers who have counted on continued appreciation in the value of real estate and therefore, are unwilling to honor their obligation during periods of home price deflation. (b) market variations due to special economic circumstances such as dependance upon employment in the energy production business. (c) new untested loan or mortgage instrument characteristic involving such things as seller contributions to financing to promote sales and coupled with adjustable loan rates and loan balances. (d) wide variations in lender loss experience indicating such things as weak controls on obtaining quality appraisals, and poorly managed loan servicing techniques aggravating borrower problems instead of helping to cure them.

Another significant development in today's mortgage market is the tremendous growth in the number of loans that are being originated for sale in the secondary market. This, in turn, has caused a deterioration in the concept of coinsurance. Historically, an important part of the private mortgage insurance product was the concept of coinsurance between the lender and the insurer. The MIC agrees to cover 20 to 25 percent of the mortgage amount and the lender is responsible for the remainder of the claim if the loan goes into default. Thus, lenders have an important incentive to make certain that the loan is properly underwritten so as to minimize chances of foreclosure.

With the expansion of the secondary market, however, the mortgage insurer often finds that the lender does not perceive the consequence of poor underwriting done for loans originated for sale to be the same as it would for loans the lender keeps in portfolio. It is becoming common for lenders during the origination process to be primarily concerned that the loan meets the insurer's requirements and whether the loan, along with its servicing, can be sold in the secondary market. When the income from origination of the loan is more important to the lender than the long term yield of the asset, the risk sharing between insurers and lenders is reduced.

While MICA has been an advocate of a strong secondary mortgage market, we are concerned with the erosion of the concept of coinsurance. Loan quality should be the primary responsibility of the lender while the mortgage insurer, whether private or public, should operate as a review underwriter.

In the VA's program, coinsurance is most evident in its optional settlement process for handling some claims. This optional settlement process occurs when the VA elects to pay the guaranteed portion of a defaulting loan, letting the title vest with the lender. Lenders are accustomed to this procedure because in the vast majority of instances, private insurers simply pay the coverage amount stated in the insurance policy and leave title to the property with the lender. From an operational standpoint, Congress was wise to require the VA to encourage lenders to act as coinsurers and relieve some of the strain placed on the already overburdened VA system. If lenders have a financial stake in a loan and share some of the financial burden of their underwriting mistakes with the insurer, perhaps their underwriting practices and procedures will improve. This will have a beneficial result on the VA, the lender and most importantly the veteran.

The Congress should never lose sight of the simple fact that when a lender underwrites poorly and puts a veteran into a property that he can not realistically afford, the resulting default and foreclosure brings substantial hardship to that veteran. A veteran should be entitled to financing he can realistically afford. When lenders bear some of the financial burden of their underwriting mistakes, it is likely to improve their underwriting practices and procedures. MICA, therefore, encourages the VA to continue with its optional settlement program.

Another disturbing trend in the practices of mortgage origination, is that the incidents of fraud and misrepresentation have increased significantly. The recent high losses of MICs are attributable, in part, to the consequences of situations involving fraudulent practices and misstatements. While MICA believes that this trend in large part is due to the increased complexity in mortgage transactions, it also partially is due to the demise in the concept of shared risk on the part of the lender. MICs believe that the tendency on the part of some loan originators to abdicate responsibility for sound loan underwriting has resulted in the increased opportunity for fraudulent practices to go unnoticed.

MICs are responding by challenging claims when fraud or misrepresentation is involved. The VA should continue their emphasis on making thorough investigation of claims so as to insure that effective underwriting has been performed, including a quality appraisal. The VA should reject insurance claims resulting from fraudulent loans and on loans that do not conform to VA requirements. Claims are expected in any insurance program but claims should be justifiable based upon the appropriate risks being shifted from the lender to the insurer. Poor claims settlement can break the VA programs budget.

As a last note, the Fiscal 1988 Budget proposals developed by the Administration included a recommendation to raise the VA guaranty fee from 1 percent to 2.5 percent of the loan amount. Although raising the price has been challenged as a reduction in the entitlement, it does point to the questions of overall budget impact and costs of the program. MICA believes that the value of the benefit to the veteran is a matter to be determined by public policy and would not take a position of reducing any of the benefit to the veteran. However, we do believe that the Congress should clearly understand all the costs of the program. The original program design recognized the need to protect lenders from losses due to the no and low downpayment aspects of the home loan program, and it is certainly appropriate for the Congress, from time to time, to reexamine this design in light of changing market technology.

With all the changes that have occurred in mortgage finance that have resulted in new and substantially higher levels of risk, the Congress may wish to do a thorough examination of pricing assumptions of the guaranty fee as well as all other program costs and revenues. Understanding today who does what and for what in mortgage insurance would be critical for Congress to make sound decisions. The fact that VA home loan guaranty program has had 43 years of successful operation should not prevent Congress from seeking ways to have the program more effectively accomplish its goals in a more fiscally efficient manner. MICA would be happy to assist the Subcommittee as best we can in any further investigation.

MICA appreciates the opportunity to submit these comments to the Subcommittee.

WRITTEN COMMITTEE QUESTIONS AND THEIR RESPONSE

QUESTIONS SUBMITTED BY THE HONORABLE MARCY KAPTUR
FOR THE HEARING BEFORE
THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
REGARDING THE VA HOME LOAN GUARANTY PROGRAM
April 22, 1987

QUESTION 1: You stated that you transferred 500 properties to HUD for homesteading purposes. How was this accomplished? Does a transfer of this kind involve any losses to the Loan Guaranty Revolving Fund?

RESPONSE 1: VA-owned properties which are transferred for urban homesteading purposes are sold to local urban homesteading agencies approved by HUD. The funds used by these local agencies to purchase the properties from VA come from HUD. The selling price for each property is the lesser of the fair market value or the total cost to VA in having acquired and managed the property. These properties are made available to local urban homesteading agencies under an agreement between the Administrator and the Secretary of HUD and under the authority of the 1979 amendment to the Housing and Community Development Act of 1974 (12 U.S.C. 1706e). Since the sales of these transferred properties are made either for fair market value or for the amount of VA's investment in the property, whichever is less, there are no losses to the Loan Guaranty Revolving Fund resulting from VA participation in this program.

QUESTION 2: How many regional offices are still experiencing backlogs and not meeting your timeliness standards for loan origination purposes?

RESPONSE 2: During the month of March, 65 percent of all Certificates of Reasonable Value were issued within VA's 15 day time standard. We have experienced steady improvement in this area since last May when only 27 percent of the CRV's were issued timely. Fourteen of 49 regional offices were not meeting the standard in 50 percent of the cases compared with 40 stations in May 1986. Timeliness has also improved on issuing commitment to guaranty loans. In May 1986 VA was meeting the eight day time standard in 57 percent of the cases compared with 83 percent in March 1987. Nine field stations were below the 50 percent level in March compared with 21 regional offices last May.

QUESTION 3: In regard to selling all of your vendee loans without recourse in Fiscal Year 1988, the Mortgage Bankers Association states that it can be expected that the reduction in the sales price paid to the Government by private industry buyers of vendee loans will be greater than the deficit savings the Government might realize by transferring the risk of default. Therefore, such losses would have to be replaced with appropriations. They further indicate that if these loans are sold without recourse, these mortgages could not be placed in GNMA pools--thus selling the loans at outrageously low prices or not at all. Since this is an Administration proposal, do you have the flexibility not to sell these loans in Fiscal Year 1988 if you cannot obtain a reasonable market price in order to obviate future losses?

RESPONSE 3: Our initial effort to sell vendee loans without recourse involved an auction in April 1987, similar to our auctions of loans sold with repurchase agreements. Prior to the sale, an analysis was performed which considered the interest rates of the loans being offered, historical repurchase rates on sold vendee loans, termination and cure rates on repurchased loans, and current market conditions. That analysis was discussed with OMB and it was agreed that VA would exercise the appropriate level of prudence in determining the acceptability of offers. The bids received at the auction in April 1987 were below levels that were considered acceptable, and no bids were accepted.

We are presently studying alternative methods of structuring a non-recourse sale of vendee loans. We are confident that we will continue to have the flexibility to reject offers that are not in the best interests of the Government.

QUESTION 4: In regard to the Subcommittee proposal to extend the 1 percent origination fee for 3 years, you believe it should be made permanent and increased to 2.5 percent in an effort to offset losses sustained by the Government due to the foreclosure of guaranteed loans. You further state that since Fiscal Year 1978, over $2 billion in appropriations and transfers from other accounts have been necessary. The Non Commissioned Officers' statement estimates that as little as $200 million would have been required to keep the loan guaranty revolving fund solvent if portfolio assets had not been liquidated at a loss. Would you please comment on their statement?

RESPONSE 4: During Fiscal Years 1978 through 1987 (YTD), VA sold vendee loans with principal balances totaling $4,274,189,482. The net discount on the sale of those loans amounted to only $223,937,494, or approximately 5 percent. During the past 2 1/2 years (FY 85 through FY 87 YTD), VA received a net premium on the sale of vendee loans amounting to $39,936,617.

QUESTION 5: You state that a downpayment requirement would seriously diminish the viability of this program [manufactured home loans] which primarily serves veterans at the lower end of the economic spectrum, and that you will be proposing changes to enhance the cost-effectiveness of the program, thus making downpayments on such loans unnecessary. Are these different than the recommendations which were approved last November?

If not, why aren't some of these already being implemented? If so, could you share some of your new recommendations with us today?

RESPONSE 5: The recommendations referred to are those approved by the Chief Benefits Director in November 1986. There have been no additional recommendations. Many of the recommendations contained in the study of the Manufactured Home Program have already been implemented, e.g.:

> We now permit GI manufactured home loan holders to obtain liquidation appraisals prior to repossession in appropriate cases.
>
> Credit standards have been considerably tightened for all GI loans, for both manufactured and site-built housing.
>
> We are enforcing claim adjustments for failure of lenders to recover through insurance.
>
> In appeals, valid market data may override book values.
>
> We have recommended to lenders that they obtain and exercise power of attorney from borrowers to sell or rent units in the event of abandonment.
>
> We have set a cap for repossession expenses to prevent haul-in freight for long distances.
>
> We have established a 6 month limit on interest payable prior to repossession.

A number of recommendations require regulatory or legislative changes; we have prepared these, and they are at various stages in the agency and administrative clearance process.

QUESTION 6: You state that to date, 11 manufacturers have been suspended from the program for 3 to 4 month periods and over $1.3 million has been collected in civil and criminal penalties. You further indicate that civil recoveries are being credited when possible to the accounts of veterans, thereby reducing their debts. How are you implementing this procedure?

Are you following a similar procedure for veterans who may have been defrauded by equity skimming schemes?

RESPONSE 6: When funds from civil penalties become available to VA they are applied toward reducing veterans' debts on a case-by-case basis, in accordance with the provisions of DVB Circular 20-85-31, Manufactured Housing Rebate Settlements, dated November 18, 1985. When a field station is paying a claim under loan guaranty and the case involves one of the manufacturers with whom monetary settlement has been reached, the station contacts Central Office for authorization to reduce the debt established against the veteran. As more settlements from additional manufacturers become available to VA, the Circular will be updated as necessary. Should funds from civil liability settlements concerning equity skimming investigations become available to VA, we would consider implementing similar procedures to reduce veterans debts accordingly.

QUESTION 7: You state during FY 85, 27.5 percent of your total sales were for cash and that in FY 86, this was increased to 33.8 percent. Is this due to the auction process? If so, do you believe that you have lost money as a result of some of your cash sales? Do you have plans to hold any further auctions this year? If so, where will they be?

RESPONSE 7: During FY 86, VA sold 1,583 more properties for cash than we did in FY 85, an increase of 20 percent. However, we only sold 92 more properties at auction during the same period, a decline from 10.2 percent of total cash sales in FY 85 to 9.4 percent in FY 86. Properties sold at auction represented only 3.2 percent of VA's total property sales during FY 86.

Understandably, the losses VA has experienced in selling an increased percentage of properties for cash have increased as compared to the losses which were experienced for the properties sold on terms. The increased losses are believed to be due to the incentives VA has had to offer to encourage purchasers to pay cash instead of opting for VA's vendee financing. VA is reviewing the incentives which have been available to cash purchasers in order to determine which steps have been most cost effective.

We have scheduled auctions in Indiana and Colorado during May and in Texas during June. Additional auctions may be scheduled during the second half of 1987 in areas where we have significant concentrations of older, hard-to-sell properties.

QUESTION 8: The Mortgage Bankers Association urges that the quota concept to sell a certain number of properties for cash be removed and that the VA be allowed to use guaranteed vendee loans as fully as it deems economically advantageous in selling property acquired in the Home Loan Guaranty Program. Do you believe this change in policy would result in your selling more or fewer homes through your vendee process.

RESPONSE 8: The Deficit Reduction Act of 1984 required that during FY 85-87 at least 25 percent, but not more than 40 percent of VA's acquired property sales be made for cash each fiscal year. Prior to the Act, approximately five percent of sales had been made without VA seller-financing (vendee loans), so VA undertook numerous steps to increase the percentage of cash sales. As the result of steps taken by VA, cumulative cash sales for FY 1985 amounted to 27.53 percent of all property sales. The cumulative cash sales for FY 1986 amounted to 33.78 percent of all property sales. Although cash sales were increased, some increases in loss per property sold were also realized. At this time VA is reviewing the steps taken to increase cash sales in order to determine which steps were most responsible for the increased cash sales and whether such sales might be increased in a more cost effective manner. We believe vendee loans substantially enhance the marketability of acquired properties, especially those in economically depressed areas where conventional lenders are most reluctant to make new mortgage loans and where potential purchasers are most reluctant to risk their liquid assets by making the downpayment required for a conventional loan. Since VA's largest property inventories coincide with economically depressed areas, substantial numbers of any mandated cash sales would need to come from those market areas. We believe that sales velocity could be maintained even with mandated cash sales percentages, but that there would be a trade-off in substantially lower prices that purchasers would be willing to pay.

QUESTION 9: You state that property sales in Fiscal Year 1986 were 2 percent below the Fiscal Year 1985 mark. We recently received a complaint that one particular regional office was backlogged six weeks in processing offers on foreclosed property? How can this be remedied? Is this due to inadequate staffing levels?

RESPONSE 9: As of the end of March 1987, there were 2021 full-time employees working in Loan Guaranty Divisions at VA regional offices. This represents an increase of 28 employees over the January figure of 1993, and 123 more (6.5 percent) than were working at the end of February 1986. In addition to increasing the permanent Loan Guaranty staff, field station Directors have been detailing personnel from other programs on a part-time basis. VA Central Office has allocated funds for overtime when appropriate to reduce excessive processing backlogs. Regional offices are also utilizing fee personnel on a contract basis to review appraisal reports, prior approval loan applications, and automatic loan submissions. We have also added personnel specifically for the Property Management function. The inventory of acquired properties is heavily concentrated at certain field stations. The Houston Regional Office alone has 21 percent of properties in title. In January of this year we authorized the hiring of 8 FTE for the Property Management section.

QUESTION 10: You state that you are part of an interagency task force to look into the development of a appraiser certification and review system. Which other agencies are involved in this and at what point in time do you estimate you will have a recommendation?

RESPONSE 10: The interagency appraisal task force currently consists of representatives from the Federal Home Loan Bank Board (FHLBB), Federal Deposit Insurance Corporation (FDIC), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Corporation (FNMA), National Credit Union Association (NCUA), Office of the Comptroller of the Currency (OCC), Federal Reserve Board (FRB), Department of Housing and Urban Development (HUD) and the VA. Interacting with the interagency task force is a select committee on implementation consisting of representatives of eight major professional appraisal organizations who have been meeting for over a year to set up a self-regulatory organization for appraisers, and who have drafted uniform standards of professional appraisal practice which they are recommending that appraisal organizations adopt. The interagency task force and the appraisal organization's select committee are committed to a coordinated effort in establishing a national appraisal certification and review system as was recommended the U.S. House Government Operations report issued by the subcommittee chaired by Congressman Doug Barnard Jr. Congressman Barnard has indicated that his draft legislative bill is nearing completion. The task force and select committee look forward to seeing the legislative proposal and what Congressman Barnard envisions as the framework for the appraiser certification and review system. The task force and select committee will continue to meet and to deliberate on this complex issue. At this point in time, we are not in a position to estimate when the task force group will issue its recommendations.

QUESTION 11: Since you have now developed a uniform residential appraisal report, at what point in time do you envision that its use will be phased in by all regional offices?

RESPONSE 11: Use of the Uniform Residential Appraisal Report (URAR) Form became mandatory on May 1. All appraisal reports for VA loan guaranty purposes, with the expection of those for used manufactured homes, must now be completed on the new form.

QUESTION 12: You state that you have directed lenders to improve delinquent loan servicing and that they are now required to give the borrower written notice within 20 days after an installment is due and unpaid and follow up with an attempt at personal telephone contact. When did you notify lenders of this procedure and is it being adhered to?

RESPONSE 12: VA's GI loan servicing requirements were approved on December 15, 1986 and released to field stations for distribution to lenders shortly thereafter. It is too early to evaluate adherence by lenders; however, no instances of failure to comply have been brought to our attention.

QUESTION 13: Last year, Public Law 99-576 authorized you to use fee-basis attorneys in foreclosures without concurrence of the Attorney General. In previous oversight activity, the subcommittee had been advised that it can take the VA and the Justice Department from six months to five years to finalize foreclosure actions. Has this provision of the law been implemented and, if so, would you please share your experiences?

RESPONSE 13: On March 5, 1987, VA's Office of the General Counsel concluded a Memorandum of Understanding with the Department of Justice. This set forth the terms and conditions governing use of fee attorneys by VA. On March 27, 1987, field stations were advised that use of fee attorneys had been authorized in Ohio, Florida and Puerto Rico, and that other stations who wished to use this procedure should notify the General Counsel. Since judicial foreclosures take some time to complete, we anticipate it will be 6-12 months before we have sufficient experience to report on the benefits of this procedure.

QUESTIONS SUBMITTED BY THE HONORABLE DAN BURTON
FOR THE HEARING BEFORE
THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
REGARDING THE VA HOME LOAN GURANTY PROGRAM
April 22, 1987

Question 1: Does the VA's program under P.L. 100-6 for homeless, chronic mentally ill veterans have a specific time table, and is there presently an estimate of how many veterans the program might help?

Answer: Public Law 100-6 authorized the VA to contract with community-based residential treatment programs to provide for the treatment and rehabilitation needs of homeless, chronic mentally ill veterans for the remainder of FY 1987.

Ninety-three VA medical centers and independent outpatient clinics submitted 83 proposals for funding to develop and implement programs addressing the needs of homeless, chronic mentally ill veterans. Nine facilities collaborated to submit joint proposals for consideration. A two level multidisciplinary review process determined which program sites would be funded.

Forty-three facilities were identified for program sites for homeless, chronic mentally ill veterans. Twenty-six states and the District of Columbia are represented; the programs are serving both urban and rural populations.

The project sites have been been informed of their selection and they are beginning to implement their programs with guidance from VACO circulars. The $5 million is divided into $4.7 million to implement the projects and $300,000 to be used to evaluate the programs. The evaluation component is also mandated by Public Law 100-6.

Currently, it is estimated that the 43 states will reach out to 4,000 veterans; 3,000 of whom will have improved access to health care and social services; 1,000 we hope will be placed in contract facilities in order to take advantage of the residential rehabilitation services.

Question 2: Several witnesses at the April 9 hearing were critical of the effectiveness of the VA's Home Retention Assistance Program in delinquent mortgage situations. Please respond.

Answer: VA becomes personally involved with borrowers at an early stage of any delinquency and is often instrumental in assisting borrowers to avoid foreclosure and retain home ownership. We appreciate this opportunity to explain what steps are taken by the VA to resolve loan delinquencies.

In a loan default case, the mortgage holder is responsible for contacting the borrower, determining the reason for the default, and making arrangements for repayment of the delinquency. If this cannot be accomplished by the time three installments are due and payable, the default must be reported to the VA, together with the holder's explanation of the reason for the default and a summary of its servicing efforts. Upon receipt of such notice, VA takes an active role in working to protect the interests of the veteran borrower and the Government.

VA closely reviews the holder's servicing of the account and follows up by attempting to contact the borrower by letter, mailgram, telephone, and/or personal visits to the property. Once contact has been established, based on the facts in the case, VA personnel may offer financial counseling and/or may intercede with the holder on behalf of the veteran in order to obtain forbearance or arrange a reasonable repayment schedule in appropriate cases. Also, VA is in contact with local agencies that provide assistance in finding jobs for borrowers, or aid with their daily subsistence needs or help in making direct mortgage payments. When appropriate, delinquent borrowers are referred to such agencies so that they may apply for benefits.

If no arrangements for reinstatement are made and if the holder files a Notice of Intention to Foreclose, VA requires that foreclosure procedures cannot be started for 30 days, during which period VA is afforded additional time to try to service the loan. Even after foreclosure has been initiated, supplemental servicing is continued in order to explore every possibility to assist the borrower.

Every case in which a holder has indicated it will not continue to extend forbearance is reviewed by our regional office personnel in order to consider refunding. In refunding cases, VA takes an assignment of the security instruments from the loan holder and the borrower is responsible for making payments to the VA. The refunding review involves the evaluation of many factors, including the current reasonable value of the property, the amount of the indebtedness, whether or not the veteran occupies the property, and the ability of the veteran to care for and maintain the property. In evaluating the veteran's income, we require that he or she presently have the ability to maintain the mortgage obligation or have the potential to resume regular payments within a reasonable time, and ultimately repay the loan.

Our personalized approach to supplemental servicing of delinquent borrowers results in varying degrees of assistance because the situation of each borrower is different. In addition, it is the loan holder which ultimately determines whether a repayment plan or continued forbearance is acceptable. We do not have the authority to require holders to grant forbearance.

We believe VA policies and procedures are quite extensive in the assistance afforded veterans in retaining ownership of their homes during periods of financial difficulty. However, there certainly may be times when additional services such as those provided by the witnesses at the April 9, 1987, hearing could be beneficial to veterans. Our regional offices work with various counseling organizations and provide them with the necessary information and assistance to adequately counsel delinquent borrowers when asked to do so on an individual basis at the borrower's request.

Question 3: The sale of VA loan assets without recourse does not seem to generate much enthusiasm in the business community. Why is it a good decision for the VA to sell without recourse, even though such an offering results in larger discounts?

Answer: The advantage of non-recourse sale is that VA will not be required to direct resources towards repurchase, servicing, or termination of the loans at any future time.

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Mortgage Bankers Association of America

Burton C. Wood
Senior Staff Vice President
and Legislative Counsel
202-861-6507

May 15, 1987

The Honorable Marcy Kaptur
Chairwoman
Subcommittee on Housing and Memorial Affairs
Committee on Veterans' Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Madam Chairwoman:

I am pleased to submit the following comments for the record in connection with hearings held by the Subcommittee on April 22, 1987, on the VA Home Loan Guaranty Program.

1. **Question:** You state it is vital that VA pay lenders the claim or guaranty funds in a more timely fashion; and that if adequate VA staff cannot be allocated to perform this function, then the payment process should be streamlined. You refer to an FHA system which was adopted in 1985 which has drastically improved the speed with which lenders are paid. Would you please explain this procedure?

Answer: It is essential for VA to address the implicit penalties to lenders that result from VA's internal delays in providing claim payments. The VA's current claim payment procedures entail a thorough review of each claim and all supporting fiscal data. This is a very labor-intensive process that requires unnecessary paperwork and administrative effort for both the VA and the lender. Therefore, we recommend that the VA's claim payment process should be streamlined in a manner similar to HUD's automated claim system.

Prior to March 1985, HUD had a claim processing backlog problem equal to or worse than the VA's current problem. At that time, it was taking HUD an average of 6 to 12 months to pay claims. Under HUD's new streamlined system, it now takes an average of 5 to 7 days for HUD to pay claims.

HUD's streamlined claims system is an on-line data based management system, with control exercised primarily on an exceptional basis. The system is designed to speed the payment of claims to lenders, reduce paperwork burdens for the government, and improve HUD's level of control.

The major elements of the HUD claims system are as follows:

Reduced Paperwork. Lenders are not required to submit with the claim (HUD Form 27011) receipts to support reimbursable expenses. Under the system, lenders simply report expenses and retain receipts on file for future review by HUD. Lenders are required to maintain an audit file of all records supporting the claim. HUD will automatically reimburse these expenses as long as they fall within acceptable parameters determined by HUD.

Automated Processing. Data from the claim form is input to an on-line data based management system. If the claim form passes all system edits and control checks, the system computes the claim and a payment is generated automatically to the lender. Generally, the lender's check is produced within five days of HUD's receipt of the claim.

Exception Controls and System Management. System control is exercised on an exception basis. In addition to various data validation and edit checks, the computer verifies critical data elements via computer interface with other automated HUD systems. Claims that fail the validation process produce a request for additional information or backup documentation. The claim may then be subjected to a complete audit review. Also, random and selective audits are employed to provide HUD with additional safeguards and lenders' claims files are reviewed as part of HUD's mortgagee review monitoring.

HUD's automated claim system has been very effective in freeing up HUD staff and speeding up claim payments to lenders, without sacrificing HUD's control over the payment process.

2. **Question:** You state that the foreclosure problem related to manufactured homes seems to be poor appraisal practices rather than a lack of equity in the property. Since loans on these homes are based on a value established by an invoice rather than by an appraisal, what improvements would enhance the quality of these loans?

Answer: To improve the quality of manufactured home loan originations, MBA believes that manufactured homes should be treated just like "stick-built" homes in the underwriting process.

In the appraisal process, rather than using the cost of the manufactured home (invoice), the market approach to value would be used as the basis for determining a property's worth for mortgage purposes. Under the market approach, the value of comparable properties in the same general location is the key factor in determining the subject property's estimate of value. The value more accurately reflects the property's market value as it will exist on the site. With the cost approach, the highest possible value of the manufactured home is used as the basis for the mortgage. The net result of using the invoice will be that in the event of foreclosure, the VA will incur greater losses .

3. **Question:** I note that you urge that the quota concept on the VA's vendee loans be removed and that the VA be allowed to use guaranteed vendee loans as fully as it deems economically advantageous in selling property acquired in the loan guaranty program. Do you think this change in policy would result in the VA's making fewer or more such loans?

Answer: While MBA believes the number of such loans may increase if the quota is removed, we also believe that VA will realize a much greater return on properties using this program.

We believe that the VA should have the flexibility on a case-by-case basis to determine the best method of sale to maximize return for the Federal government. Use of a quota may prevent properties that could be sold at the highest possible price using the vendee program from being sold as quickly as possible at this optimum price.

We would be pleased to work with the Subcommittee, as well as the VA to help ensure that any program adopted be as efficient as possible.

Sincerely,

Burton C. Wood

Manufactured Housing Institute
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May 15, 1987

Ms. Marcy Kaptur, Chairwoman
Subcommittee on Housing and Memorial Affairs
U.S. House of Representatives
Committee on Veterans' Affairs
335 Cannon House Office Building
Washington, D.C. 20515

Dear Ms. Kaptur:

Thank you for the opportunity to comment on the Veterans' Administration Home Loan Guaranty Program. That program's 43 year history and accomplishment of having closed over 12 million loans for veterans speaks well for its success.

The Manufactured Housing Institute (MHI) is a national trade association representing manufactured home builders and related suppliers of goods and services to the industry and its consumers. As such, we will confine our comments to the Veterans' Administration Home Loan Guaranty Program as it applies to manufactured housing.

The Veterans' Administration (VA) was first authorized to guarantee loans on manufactured homes by the Veterans' Housing Act of 1970 (P.L. 91-506). The 1970 Act provided for a termination of the program on July 1, 1975 to give Congress time to evaluate this new program. The program became permanent with the passage of the Veterans Housing Act of 1974 (P.L. 93-569), and Congress affirmed its belief that the VA Manufactured Home Loan Program was beneficial and provided a good source of housing to veterans. Since its inception in 1970 through March of this year, the program has provided 106,690 veterans the opportunity to own their own home.

You indicated that your legislative agenda would consider, among other things, an increase in the VA loan guarantee limit and a requirement for downpayments on manufactured home loans. We note that the increase in the loan guarantee limit is for site-built homes only, and no reference is made to increasing that limit (currently $20,000) for manufactured homes.

In general, the VA loan guarantee limit on manufactured homes has not been a problem, since averge prices for new manufactured homes have not risen at the rapid pace that prices for site-built homes have. There are instances, however, in high cost areas such as California, where the size and price of manufactured homes is much larger than the national average. In 1986, 82 percent of the new manufactured homes sold in Calfornia were multi-section homes. Over the last several years, the percent of multi-section homes nationally has been increasing. In 1984, only 29 percent of manufactured homes shipped nationally were multi-section homes. In 1986, that number had grown to 37 percent. Through March, 1987, multi-section homes accounted for 39 percent of national shipments. We would respectfully request that you consider an increase in the loan guarantee limit for manufactured homes similar to that being considered for site-built homes. Or, in the alternative, consider a high cost area adjustment similar to the one used by the Department of Housing and Urban Development (HUD) in their FHA Title I loan insurance program for manufactured housing.

Requiring a downpayment on a manufactured home runs against one of the primary benefits of the VA home loan program. To have a no downpayment benefit for a site-built home while requiring a downpayment for a manufactured home will create confusion and resentment among veterans seeking to use their benefits. We understand that the VA staff considered this option in a comprehensive study conducted last year and rejected it.

Proponents of the downpayment requirement point to a reduction in claims payments as justifying this change in the program. We cannot argue with the arithmetic. A lower loan balance obviously means a lower claim in the event of a defaulted loan. We do not believe, however, that downpayments will reduce the number of claims. The VA study referred to above found that defaults were caused by loss of employment, marital problems, or loss of income; not by the size of the loan balance or the difference a downpayment would have made in the monthly payment.

The difference in monthly payment on a no downpayment loan versus a 10 percent downpayment loan is not significant enough to mitigate the circumstances that the VA found to cause defaults.

Home Price	$20,000	$25,000	$30,000
Monthly Payment on No Downpayment Loan at 12 1/2 percent per annum	$246.50	$308.13	$369.76
Monthly Payment on 10% Downpayment Loan at 12 1/2 percent per annum	$221.85	$277.32	$332.78

For there to be any significant impact on the size of claims, the VA would have to require a 10 percent downpayment, according to the VA's study. 10 percent downpayments are the norm in conventional manufactured home loan programs. Hence, to establish a VA program with a 10 percent downpayment requirement is to offer the veteran a benefit program that has no benefit to him.

Creating a VA program that mirrors conventional programs with respect to downpayments may actually have an effect that is opposite that which is intended. Lenders would be encouraged to put veterans who are good credit risks in their conventional programs which require less time and paperwork to process. Veterans with marginal credit, on the other hand, would be offered the VA program, with the lender choosing to accept the greater administrative burden in exchange for the VA guarantee. The customer would be indifferent about which type of loan he or she gets since both would require the same cash outlay. So, the gain in reducing the size of claims could be more than offset by an increase in the number of claims, because the program would be skewed toward obtaining loan insurance for marginal credit risks rather than providing a benefit to the veteran borrower.

In testimony before the Subcommittee on Housing and Memorial Affairs and correspondence to members of the Subcommittee on Housing and Community Development, there have been efforts to blame manufactured home loan defaults on the construction and enforcement process to which manufactured home builders must conform. These statements ignore the real economic factors which have actually caused default rates in the manufactured housing industry to rise over the last two years.

The primary cause of loan defaults in the manufactured housing industry has been the dramatic decline in the economies of the oil-patch states of Texas, Louisiana and Oklahoma.

Total Shipments of Manufactured Homes in the U.S.

1980	1981	1982	1983	1984	1985	1986
221,091	249,313	238,808	295,079	294,993	283,489	244,660

Shipments of Manufactured Homes to Oil-Patch States

TX	26,810	34,980	43,873	41,904	37,462	25,800	14,309
LA	12,318	14,925	14,205	13,611	11,432	8,732	4,448
OK	6,220	9,939	12,257	9,062	6,411	3,773	1,976
	45,348	59,844	70,335	64,577	55,305	38,305	20,733

Oil Patch Shipments as A Percent of Total Shipments

20.5 %	24.9 %	29.5 %	21.9 %	18.7 %	13.5 %	8.5 %

Clearly, the declines indicated in the previous charts have been the prime culprit in the increase in loan defaults for manufactured homes. The rapid decline in shipments to the oil-patch states indicates the weakness in those economies generally, and the effect that repossessed homes competing with new sales have had. The people who defaulted on their loans, however, did so because they lost their employment, not because of the construction quality of their homes.

We appreciate the opportunity to offer our views. We have kept our comments brief, and would be more than happy to answer any questions or provide additional information you may require.

Sincerely,

Jerry C. Connors
President

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